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THE DEPARTMENT
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THE
DEVELOPMENT PROGRAMME
1964-1965

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SECTION I

The State of the Economy

THE STATE OF THE ECONOMY

Introduction

The First Three Year Short-term Programme aimed at a 4·8 per cent increase in national income and 2 per cent increase in real income per capita per annum; it stressed the importance of economising capital and foreign exchange, insisted on fuller use of existing surplus capacity for production, and gave priority to projects which took relatively less time to mature, required less capital and made smaller demand on foreign exchange resources. It underlined the importance of the public sector as the spear-head for progress and provided for increasing its share of national investment. It recommended a larger allocation of funds to industry, and while recognising the need for developing agriculture, drew attention to the scope for increased production through better organisation and use of non-capital intensive methods and techniques.

Gross National Product

To judge the impact of this Programme, it is necessary to review the current state of the national economy.

The most succinct index of the growth of an economy is furnished by the rate of change of the national income. The Gross Domestic Product (G. D. P.) of Ceylon during the years preceding the Programme and the two first years covered by it was as follows :

Table 1—Gross Domestic Product at Current Factor Cost

Rs. million

	1960	*1961*	*1962*	*1963*
G. D. P.	6,118·9	6,154·9	6,409·0	6,652·9
Net Factor income from abroad	−44·0	−40·0	−47·0	−52·0
Gross National Product	6,074·9	6,114·9	6,362·0	6,600·9
Rate of Growth		**0·6**	**4·0**	**3·7**

Source : Department of Statistics.

Between 1960 and 1963 the value of the G. D. P. increased by Rs. 534 million or 8·7 per cent. Against this should be set off the net payments abroad which this country had to make on account of investment. These deductions were, however, small and, though they increased between 1961 and 1963, they did not significantly alter the value of the Gross Domestic Product.

During this period the prices of Ceylon's exports fell relatively to those of her imports. This had a serious impact on the National Income in real terms. Every such fall in the terms of trade means that a given quantity of exports brings in exchange a smaller quantity of imports. The quantity of goods and services available to the country for consumption and investment is therefore reduced. The following table shows the impact of this factor on the national income of Ceylon in recent years.

Table 2—REAL GROSS NATIONAL PRODUCT ADJUSTED FOR CHANGES IN THE TERMS OF TRADE

Rs. million

	1961	*1962*	*1963*
GNP at constant (1958) prices*	6,112·0	6,432·2	6,607·8
Loss on account of terms of trade†	−109·0	−41·0	−213·0
Gross National Income at 1958 Prices	6,003·0	6,391·2	6,394·8

*Department of Statistics.
† Report of Central Bank 1963, Table IIA—13, p. 34.

Thus in the three years 1961–63 the nation lost Rs. 363 million as a result of adverse changes in the 'terms of trade'. In one single year, 1963, the loss amounted to around 3·2 per cent of the Real National Product. When allowance is made for these losses, the Gross National Income in real terms is seen to have increased by 6·5 per cent between 1961 and 1963.

Income per head

Between 1960 and 1963, the population of the country increased from 9·8 million to 10·6 million. Thus the whole of the increase in national income was used up in maintaining the growing population at, more or less, the same standard of living. When account is taken of the loss of national income through adverse changes in the terms of trade, real income per head is found to have actually fallen.

The Composition of the National Product

The composition of the national product and the relative importance of the different sources from which it was derived in recent years are shown in the table that follows :

Table 3—GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN AT CURRENT FACTOR COST

	1960		*1963*	
	(*Rs. M*)	*Per cent*	(*Rs. M*)	*Per cent*
Agriculture, Forestry and Fishing*	2,925·8	47·8	3,038·9	45·6
Mining and Quarrying	8·2	0·1	9·2	0·1
Manufacturing	260·5	4·2	389·3	5·8
Construction	402·8	6·5	442·2	6·6
Electricity, gas, water and sanitary services	71·4	1·1	86·8	1·3
Transportation, storage and communication	450·6	7·3	511·4	7·6
Wholesale and retail trade	623·5	10·1	694·9	10·4
Banking , insurance and real estate	52·0	0·8	63·0	0·9
Ownership of dwellings	155·4	2·5	179·1	2·6
Public administration and defence	417·0	6·8	477·2	7·1
Services	751·7	12·2	760·9	11·4
G. D. P. at current factor cost	6,118·9	100·0	6,652·9	100·0

* Includes trade and transport of export products.

Source : Department of Statistics.

In 1963 the share of Agriculture amounted to 45·6 per cent while manufacturing which occupies the seventh place contributed only 5·8 per cent. Services and Trade and Finance were each responsible for 11·4 per cent or nearly twice as much as industry. About 40 per cent of the national product consisted of services of various types and 60 per cent of goods.

The structure of production showed little change between 1960 and 1963. There was some increase in the share of industry and mining from 4·4 to 6 per cent but that of agriculture declined from 48.2 per cent to 45·7 per cent. As however the prices of agricultural products, in particular of exports, fell while those of industrial goods rose, the changes in the real output of the two sectors did not quite coincide with those in their aggregate values. The share of agriculture remained constant, falling prices being offset by increased output, while that of industry rose from 4 per cent to 5·6 per cent.

Generally speaking, a small country with a limited range of resources relies more on foreign trade than a large one. But the extent to which production for export is diversified depends also on the state of its economic development. The less advanced an economy is, the less variegated would be the structure of its exports.

The following table shows the division of the National Product into production for export and domestic use :

Table 4

Rs. million

	1960	*1961*	*1962*	*1963*
Gross Domestic Product*	6,118·9	6,154·9	6,409·0	6,652·9
Production for export	1,513·5	1,456·6	1,473·8	—
Export as per cent of GDP	(24·7)	(23·7)	(23·0)	

* At current factor cost.

Source : Department of Statistics, and Statistical Abstract, 1962.

Nearly one-fourth of the national product was sold abroad. The ratio shows a slight tendency to fall owing to the failure of exports to increase in value concurrently with the national product rather than to the strengthening of the internal economy of the country. Again, within the export sector, the heavy reliance on three commodities only, *viz.*, tea, rubber and coconuts, continued. These accounted for 95 per cent of all exports in value. There was no change in this proportion in recent years.

Gross Capital Formation

Table 5—Gross Fixed Capital Formation at Current Market Prices

Rs. million

	1960	*1961*	*1962*	*1963*
Gross Domestic Capital formation	933·5	921·4	975·4	982·4
G. D. P. at current market prices	6,531·9	6,543·9	6,931·0	7,107·9
Capital formation as per cent of GDP	14·29	14·08	14·07	13·82

Fixed capital formation during the three years 1961 to 1963 amounted to Rs. 2879·2 million or 14 per cent of the Gross Domestic Product. If the overall capital output ratio of the economy is assumed to be 3·5 : 1, the gross domestic product of the economy should have increased by Rs. 822·6 million. It actually increased by Rs. 576·0 million.

During this period, however, prices of investment goods and those of goods and services in general moved differently. While the consumer price index rose from 103·5 to 108·8 (Colombo Index 1952 = 100), prices of imported capital goods (Central Bank Index 1958 = 100), which accounted for 50 per cent of the cost of capital formation, fell from 120 to 98.

An inference drawn from relating the increase in the gross national income during 1961 to 1963 to the growth of fixed capital formation in the economy in the same period can be deceptive. The capital output ratio expresses the relation between the value of the output and of the cost of the capital equipment, when the plant is operating at full capacity. Some time elapses, inevitably, before investment bears fruit, and still more time passes before it produces capacity output. If for Ceylon this interval of time is assumed to be, on the average, three years—there are no studies on this aspect—the increase in the gross domestic output during a particular period may in part be due to capital formation during an earlier period. Besides, the overall capital/output ratio itself may not have remained unchanged during this period ; it may have risen as a result of increasing investment in the more capital-intensive projects. In the circumstances the actual capital/output ratio in the economy may be higher than the traditionally accepted ratio of 3·5 : 1, which is extremely tentative.

Net Capital Formation

It appears that nearly a third of the Gross Investment was used to maintain the the existing equipment intact so that net capital formation was around 9 to 10 per cent of the national income. With a capital output ratio of 3·5 : 1, a net investment of 9 to 10 per cent will increase national income yearly by about 2.5 to 3 per cent. This is equivalent to the rate at which population is increasing. At this rate income per head will remain constant.

Private and Public Consumption

The total expenditure on consumption is made up of expenditure on private and public consumption. Between 1960 and 1963, each of these components increased by about 7 per cent. These rates, however, relate to *expenditure* on consumption and do not necessarily reflect changes in *actual consumption* by the two sectors. A part of the public expenditure on consumption is incurred to provide the people with free supply of goods and services which they would have, otherwise, purchased. When the value of these services is added to private expenditure on consumption, private consumption would show a further increase. Private consumption per capita was maintained in terms of money value but in real terms it fell at the rate at which the cost of living went up.

Pattern of Consumption

It is difficult to estimate the effect of reduced private consumption on the pattern of consumption. Only some broad changes may be indicated.

Changes in the relative prices and availability of different goods and services has affected the composition of total consumption in the economy. But on this there are no comparative data for the years under review.

Comparison with the past is only possible on the basis of the Consumer Finance Survey 1963. The table below indicates consumer expenditure on selected food items :

Table 6—CONSUMER EXPENDITURE ON SELECTED FOOD ITEMS—1953 SURVEY DATA COMPARED WITH 1963 SURVEY DATA AT CONSTANT (1953) PRICES—PER SPENDING UNIT FOR TWO MONTHS

Item	*1953*	*1963 at constant (1953) prices*	*Per cent change in volume consumed*
Wheat flour	11·60	7·71	−33·53
Meat	4·50	10·26	128·00
Fish	15·20	18·05	18·75
Eggs	1·86	3·23	73·66
Vegetables	21·96	19·05	−13·25
Coconuts	11·94	10·84	−9·21
Cooking oil	4·84	5·20	7·44
Milk	6·18	11·45	85·29
Milk products	1·34	1·62	20·90
Sugar	13·94	19·84	42·32
Tobacco	7·02	4·24	−39·60

As the figures indicate, the volume of consumption of certain food items such as meat, fish, eggs, milk and milk products and sugar, shows an appreciable increase over the last decade.

Apart from the change in the food items themselves, the Consumer Finance Survey further shows that, as compared with the early part of 1953, expenditure on food as a percentage of the total declined somewhat while expenditure on housing and on clothing increased. This trend is a clear indication of the fact that there has been a rise in the standard of living of the people.

Some of the changes in the structure of consumption between 1953 and 1963 might have taken place prior to 1961. But restrictions on imports were imposed mostly in the middle of 1960 and for this reason the changes might have been influenced more after this year. In the case of certain consumer goods, domestic production increased significantly and, in some measure, made up for reduced imports.

International Balance of Payments

The following table summarises Ceylon's international balance of payments in recent years :

Table 7 *Rs. million*

	1960	*1961*	*1962*	*1963*
Exports	1,796	1,707	1,763	1,725
Imports	−2,006	−1,794	−1,906	−1,854
Balance of trade (net)	−210	−87	−143	−129
Other items (net)	−10	−7	−1	−17
Net current account	−220	−94	−144	−146
Movement of private capital (net)	−5	6	−2	−7
Movement of official and banking capital (net)	196	107	115	159
Net capital account	191	113	113	152

Source : Annual Report of Central Bank, 1963.

During these years the international current account of the country was continuously in deficit. The deficits were, of course, covered by net inflows of capital account.

These external deficits were the outward expression of imbalance in the internal account of the country for, in the utlimate analysis, if a country is spending more than its national income, the excess of Gross National Expenditure over Gross Domestic Product at current prices must show itself in an excess of imports over exports and/or rise of internal prices. During 1961 to 1963, the Gross National Expenditure of this country was greater than its Gross Domestic Product.

But, proximately, the deficits were the result of exports failing to expand in value concurrently with the increasing demand for imports. Between 1960 and 1963, the former declined by 4 per cent. Imports, too, declined but more heavily. This was the result of deliberate restriction and not a spontaneous contraction. If the same proportion of national expenditure had been used to purchase imports in 1963 as in 1960, the aggregate value of imports would have been Rs. 2,151 million and the deficit in the balance of trade Rs. 426 million.

The different behaviour of the country's exports and imports was the product of differing circumstances governing the demands for them in recent times. In spite of rising national incomes, the advanced countries of the world to which Ceylon sells her exports did not increase their demand adequately. On the other hand, Ceylon's demand for foreign goods and services showed a tendency to rise with her national income. The index of export prices (1958=100) fell from 104 in 1960 to 93 in 1963, or by 11 per cent but that of import prices went up from 102 to 105 or by about 3 per cent. During the same period the terms of trade (export prices divided by import prices) declined from 102 to 89, and the deficit in the international current account tended to expand. But these experiences were not peculiar to Ceylon ; they were common to most developing countries of the world.

Ceylon has tried to meet this problem in two ways. It has tried to increase the volume of its exports and stabilise their sale by long term agreements. It has cut down imports, in some instances, severely. How these measures have affected its foreign trade is analysed below. A brief survey of the three major exports, tea, rubber and coconuts which account for about 95 per cent of all exports follows.

The trade in teas has been increasing since 1959, but at a slower pace than world production. As stated earlier with regard to exports the volume of tea consumed by U. K. and other advanced countries which are the chief consumers have not been rising sufficiently inspite of their rising national incomes. On the other hand, some new countries have taken to the production of tea and added to the supply on the world market with the result that supply and demand are being equalised at falling prices. For instance, the f.o.b. price of Ceylon tea fell from Rs. 2·67 per lb. in 1960 to Rs. 2·50 per lb. in 1963. In spite of this fall, Ceylon has been able to improve her total receipts slightly from Rs. 1,096 million to Rs. 1,140 million by increasing the volume of its exports from 410 million lbs. to 456 million lbs. partly at the expense of other countries.

The aggregate value of rubber exported from Ceylon fell from Rs. 378 million in 1960 to Rs. 257 million in 1963. This was the result of a decline both in price and quantity. During this period the f.o.b. price of rubber fell from Rs. 1·61 per lb. to Rs. 1·23 per lb. while the quantity exported dropped from 235 million lbs. to 209 million lbs. More than half the rubber exported by this country was sold under special agreements. This helped to stabilise the quantity exported.

The world demand for natural rubber is conditioned by the competition from synthetic substitutes. World production and consumption of the latter are now both ahead of those of the former with a tendency for the lead to increase with the passage of time. In consequence, world exports of natural rubber has increased at a slow rate of 1 per cent per annum.

Ceylon increased her total exports of coconuts and coconut products, the index of value (1958=100) rising from 112 in 1960 to 121 in 1963. The price index fell from 103 to 90 ; but this was more than offset by an increase in volume (index) from 109 to 136. Ceylon's share in world trade in these products also improved.

The price per unit of all three exports declined. In the case of tea and coconuts, however, the total value improved as a result of significant increase in the volume of export. But in the case of rubber this did not happen. The country's position as an exporter was the weakest in respect of this commodity. There is no lack of capacity on the part of this country to increase her exports. Production for exports is almost non-competitive with other activities, exports can be increased without drawing upon resources and elsewhere. But for the drop in their prices, Ceylon would have earned considerably more in the way of foreign exchange from her exports.

There were no significant changes in the geographic distribution of Ceylon's exports. It sold the major part of its tea and coconut to developed countries. Its exports of rubber to socialist countries increased appreciably. These now comprise more than half the total exports. In the circumstances of the world market, this shift enabled Ceylon to maintain its exports of this commodity better than it could have done otherwise. But since the price it received is linked to the world price, the stability of its total receipts depends on the demand from the importing countries expanding sufficiently to offset the tendency of world prices to fall.

IMPORTS

On the other side of the account Ceylon has tried to limit imports, and to promote the production of domestic substitutes. The impact of these policies on the magnitude and composition of her import trade is analysed below.

Between 1960 and 1963 the total volume of imports was reduced by 30 per cent. But as the prices of different categories of imports and the measures of restriction applied to them varied greatly, their aggregate values also changed. The average price (c.i.f.) of imported consumer goods rose by about 9·9 per cent, but those of intermediate and investment goods fell by 8·5 per cent and 18·3 per cent, respectively.

Generally speaking, imports of consumer goods were severely restricted. As a result, their volume fell by 41·4 per cent and those of capital goods by 20·5 per cent while imports of intermediate goods expanded by 2·5 per cent. The total values of the three categories declined by 30·2 per cent, 28·3 per cent and 8·7 per cent, respectively.

Within the category of consumer goods, there were, as the following table shows, important changes in the proportionate shares of three sub-groups, *viz.*, food and drink, textiles and other consumer goods and services.

Table 8—PERCENTAGE OF EACH SUB-GROUP* TO TOTAL AT CURRENT MARKET PRICES

	1960	*1963*
Food	61·5	76·6
Textiles	18·6	12·4
Others	13·2	6·1

Source : Table II B, Central Bank of Ceylon, Annual Report, 1963.
*Major goods only.

Certain features of Ceylon's economy rendered the restriction of imports in some degree relatively easy in the first years. The import content of her exports is low, being less than 10 per cent. Hence import restrictions did not create serious difficulties for the export industry. Again, a high proportion of the country's imports consisted of consumer goods. Finally, a significant volume of the less essential goods and services was capable of being reduced without any serious consequences to the economy.

But by 1963, some of these favourable features had shrunk in importance. The ratio of food and other consumption goods imports (valued at retail prices) to total expenditure on private consumption fell from 38 per cent in 1960 to 32 per cent in 1963. There was a similar decline in the proportion of payments for consumer goods to total payments for imports, and a greater decline in the share of textiles and other consumer goods. The margin that could be used to save foreign exchange had become narrow.

A high proportion of intermediate goods imported by this country is used in the manufacture of consumer goods. There was some increase in these imports, but it was much less than the rate at which population and demand for consumer goods expanded. The net result was that while the level of consumption of food per head was probably maintained, the consumption of textiles and of other consumer goods declined appreciably.

Of the three major sub-divisions of investment goods imported by this country, *viz.*, building materials, transport equipment, and machinery, imports falling within the last group remained more or less steady while those in the first two declined. the appreciable increase in construction costs in recent years was probably due, in some part, to the shortage of building materials, while the insufficiency of transport equipment may explain some of the difficulties of the transport industry.

NON-MERCHANDISE ITEMS

The net balance of non-merchandise items in Ceylon's international current account is small relatively to the balance of trade. But total credits and debits are quite large. In 1960, they were Rs. 307 million and Rs. 317 million, respectively. Faced with an overall shortage of foreign exchange, the Government has tried to restrict as much as possible the outflow of remittances on this account. Notwithstanding, the net balance on this account which had been Rs. 10·6 million in 1960 rose to Rs. 16·8 million in 1963. The reasons, as the following analysis show, were partly the same as those which were responsible for the deterioration of the balance of trade. The Government succeeded in cutting down the expenditure on foreign travel by its nationals from Rs. 33·2 million in 1960 to Rs. 22·0 million in 1963. But at the same time the income from tourism also fell from Rs. 8·9 million in the first year to Rs. 5·6 million in the second. The income from the Port also fell due to the reduced imports and overall reduction of traffic. Again, as a result of the loss of foreign assets and increases in foreign borrowing largely due to balance of payment difficulties, the country's income from foreign investment fell from Rs. 31·8 million in 1960 to Rs. 16·4 million in 1963, while her obligations to pay which declined from Rs. 76 million in 1960 to Rs. 61·7 million in 1961 rose to Rs. 68·8 million in 1963.

During the three years 1961 to 1963, the total deficit on current account amounted to Rs. 384 million. There was also a net outflow of private capital of Rs. 3 million. The total deficit of Rs. 387 million was met by the sale of assets and acquisition of liabilities on short and long terms. In 1959 and 1960, the bulk of the deficit was financed by drawing down external assets. But in 1961 and 1962, it was financed more by borrowing than by running down the external assets. A sum of Rs. 53·8 million was drawn from the I.M.F. in 1961, and another Rs. 53·8 million in 1962, adding a further Rs. 107·6 million to Ceylon's total external reserves. The external assets of the Central Bank fell from Rs. 190·2 million at the end of 1960 to Rs. 114·2 million at the end of 1963.

The scope for further net saving of foreign exchange through tightening restrictions on services seems to be extremely limited. Travel abroad by nationals of the country has been cut down as far as possible. Incomes from tourist traffic as presently received by the banking system is small and even if it could be doubled, it would make little difference to the deficit on current account. Income from the Port has fallen partly as a result of the attempt to protect the balance of payments, while increased debit on investment account reflects foreign assets lost and foreign liabilities incurred to meet the current account deficit.

So long as imports can be controlled, it is possible to keep the demand for foreign currency within limits permitted by the size of the country's external reserve. However, a country aiming at planned development can ill afford to have its programmes upset by unexpected shortages of foreign exchange. Ceylon's imports have now come to consist so largely of essential consumer goods and of intermediate and investment goods needed for development that further restrictions of imports are likely to affect unfavourably the present and the future standard of living of the people.

SECTION II

The Development Programme

PROBLEMS OF DEVELOPMENT

The Gross Domestic Product of this country is estimated to have increased by 4 to 5 per cent per annum since Independence. Out of this, a proportion was required to maintain the capital equipment of the economy intact, so that Net Domestic Product increased by a smaller margin. The reasons for this slow growth are many.

After 1947, the annual rate of growth of the population rose steeply from 1·7 to 2·7 per cent. It has remained at this high level since then, and seventy-three per cent of the increase in the Gross Domestic Product has been used to prevent the standard of living of the growing numbers from falling. Another 10 per cent. has been employed to improve the standard by 1 per cent per annumm, leaving 17 per cent for investment.

Since this country is highly dependent on foreign trade, its real national income has varied with the variations in the terms of trade. These rose from 100 in 1948 to 160 in 1955 to fall again to 115 in 1963. The adverse movement reduced seriously the amount of imports that exports could buy and lowered the real national income. In 1963 the loss on this account amounted to 4 per cent of the real national income. This was more than the rate at which the Net National Product had been increasing.

The over-all capital output ratio in this country has been estimated at 3·5 : 1. An investment of 17 per cent of the Gross National Product therefore would increase the latter by 4 to 5 per cent per annum.

The overall national rate of growth was, obviously, influenced by the structure of the economy and the rates of growth of its different sectors. In 1963, agriculture accounted for 43 per cent of the Gross Domestic Product at current prices, Mining and Industry 7 per cent, Trade, Transport and Finance 20 per cent, Public Administration, Defence and Services provided by the Government and others 20 per cent, construction and income from dwellings 10 per cent. In earlier years the share of agriculture had been higher and that of industry lower.

About two-thirds of the output of agriculture are produced for export. Between 1959 and 1963 the net output (at 1959 factor cost prices) of the export sector of agriculture which produced two-thirds of the agricultural output increased by 13 per cent. But as the terms of trade dropped from 142 to 115, its contribution to the increase of real national income was practically nil. Meanwhile, the capital output ratio in this sector was pushed up by the high capital cost of replantation and the long periods which replanted areas took to mature.

In the non-export sector, the output of paddy has more than doubled since 1950. But investment in major irrigation works and land development schemes have raised the capital output ratio. In 1961–62 it was estimated to have been about 12 : 1.

During the last few years industrial production has increased rapidly, as a result of restrictions imposed on imports to protect the balance of payments. But the industrial sector is still so small that even a large increase in its output makes little difference to the national product.

The industrial sector is extremely varied in composition. In some industries, *e.g.* power and transport, the projects are capital-intensive and have long periods of gestation. The importance of such projects in the public sector has increased in recent years. In other industries projects have taken too long to start operation and attain capacity production. State Corporations, for example, took three years to begin operation after they had been formally established. Construction work, in particular, has been unreasonably slow. Thus, rising capital output ratios and long periods of gestation lowered the rate of growth of the national product.

During the last few years, the delay was, in part, due to the shortage of foreign exchange. The deficit on current account which reached Rs. 220 million in 1960 could have been brought down to Rs. 146 million in 1963 only by imposing severe restrictions on imports. Imports of consumer goods, especially non-essentials, were hit hardest ; but those of investment goods also suffered. The index of volume (1958 = 100) of the latter fell from 117 in 1960 to 93 in 1963 or by about 20 per cent.

But, in many instances, the delays were the result of inadequate planning and administrative deficiency. In the case of sugar production, for example, the continuance of excess capacity after years of operation is due to inadequate planning ; the sources of supply of the raw materials for the industry had not been fully studied before the project was established. In that of chemicals the scope of the market for its products had not been properly explored. In other instances, *e.g.*, Salt Corporation, the technical difficulties of production on the planned scale had not been solved prior to the undertaking of production on a large scale. In still other cases, *e.g.*, cement, deficiencies in organisation have prevented production from reaching capacity levels. In all these instances and some others probably, unused capacity lowered the rate of growth of the national product.

Some of these difficulties and deficiencies are unavoidable in the early stage of industrial development. The natural resources of the country have not yet been developed or even explored fully. The social economic overhead has still to be strengthened. The industrial base is narrow, complementary industries are few in number and external economies are scarce. There is lack of experience in management and scarcity of skilled personnel. The low level of general industrial development hampers the advance of individual industries.

The difficulties created by the structural deficiencies could be overcome temporarily by imports from abroad. But, as noted already, the supply of foreign exchange has been short. These deficiencies can be reduced but not removed by proper planning. But planning in this country is still limited in coverage and implementation falls far short of what is expected in a plan.

A beginning has been made with the planning of the public sector. But the development of the private sector is largely undirected. Until recently, the private entrepreneur found it profitable to concentrate on trade and commerce, with their quick turnover of capital and high return on investment. Recently, he has taken to industrial enterprise and begun to exploit the protected home market by producing substitutes for imports. But there is little direction of private enterprise by the Government. An applicant for assistance from the government has only to prove that he can produce and sell his products at a profit in the domestic market to have his enterprises included in the list of approved industries. As a result, the development of the private sector is being determined by the relative opportunities for private profit in different industries rather than by the needs of the national economy for their products. The largest expansion has taken place in light consumer goods industries, some of which are engaged in producing non-essential commodities like cosmetics, soft drinks, confectionaries etc. Investible funds are not being used to correct the structural deficiencies of the economy. Moreover there is a high concentration of production in a few firms, and because of the tradition of high profits taken over from trade and inexperience and inefficiency of entrepreneurs as industrial producers the prices of domestic products are high, relatively to those of the imports they are replacing. To take one example at random, the average cost per unit of locally produced tyres and tubes made out of locally produced rubber, is about 50 per cent higher than the c.i.f. prices of imported varieties made by countries which import rubber probably from Ceylon.

Investment in the public sector has increased considerably in recent years, both absolutely and relatively to total investment in the economy. But the budget surplus on current account has been small and the Government has had to resort to borrowing to finance projects in the public sector. A good part of the money has been raised by the sale of short term Treasury bills to the Central and Commercial Banks ; between the end of September, 1959, and September, 1963, the total amount of Treasury bills outstanding increased from Rs. 320 million to Rs. 1,125 million. The rise of prices that has taken place in consequence has, among other things, increased the money costs of projects in the public sector.

Another drag on investment in the public sector has been the recurring failure of Government departments to spend the moneys allotted to them by the annual budgets. Under-expenditure of budgetted amounts implies a non-use of funds which could have been used in other ways during the financial year, and results in a distribution of public expenditure different from what the budget envisaged.

Ministries have shown the same inability to make full use of assistance offered by foreign governments. The total aid offered has been relatively small up to now ; but it is likely to increase with the development of the economy and the loss from non-use may become serious. The international current account of this country has been negative for some years and deficits have been met by running down foreign assets and borrowing abroad on short term. The outward flow of private capital has been restricted considerably in recent years, but has not been replaced by an inward movement. In these circumstances, foreign assistance even on a small scale should be valuable.

Shortages, inefficient use and maldistribution of investible funds have not been the only handicaps which have retarded the development of the economy. The efficiency of capital depends upon the efficiency and adequate supplies of the co-operating factors, labour and management. This country has an abundant supply of unskilled labour, but skilled workers and technically trained persons are in short supply. Only a very small proportion of schools have facilities for teaching science, and students receiving technical training are small in number relatively to those who receive general education at the expense of the Government. For instance, in 1962–63, actual expenditure on technical education was about 30 per cent of the budgetted amounts. At the University stage, the number of students in the science faculties is much less than in the Arts Faculties. Again, among science students, engineers-in-training are much fewer than doctors-in-training. Apparently, there has been no planned attempt to develop the human resources of the country in line with the requirements of its economic development.

The economy suffers from a similar handicap in respect of management. The handicap is a legacy of the country's past. Of all capacities the managerial is probably the one most dependent, for its development, on experience. But the only fields in which there was, before independence, scope for enterprise on large scale were foreign trade, banking and finance and plantations. But these were the preserves of non-Ceylonese and, by and large, the people of the country had little opportunity to develop their managerial talent.

These difficulties of development cannot be overcome by planning. But planning can reduce them significantly. To do this the scope of planning has to be widened, and its organisation and methodology improved. In the first place, partly because of the absence of a clearly defined policy in regard to the development of the private sector, planning has been confined almost wholly to the public sector. But though the development of the public sector, covering the basic economic activities of the economy, can greatly influence the direction and rate of growth of the national economy, these will depend, finally, on the co-ordinated development of the public and the private sectors. In respect of the private sector the responsibility of Government is to define the lines on which the former should develop and induce or oblige it to follow those lines.

Secondly, efficient planning requires close co-operation among government departments and other agencies concerned with development. That, in its turn, implies the primary formulation of individual plans by these organisations within the framework of the national plan and in conformity with its broad objectives and policies.

But this is not enough if the national plan is also to be the people's plan, *i.e.*, a plan which is not only implemented with the help of the people—in fact, no plan can be executed without their co-operation—but in the framing of which people's organisations at regional and other levels have an opportunity to participate. There is no reason, except the traditions of a centralised bureaucracy, why the people in rural areas, or the workers in an industry should not have an opportunity to formulate, through local organisations their needs and suggest steps by which these can be met, possibly in part, out of their own resources. It should be possible, through appropriate organisation, to incorporate these local plans into the national plan, of course, as far as it is possible and desirable to do so consistently with the requirements of national development.

Finally, efficient planning is dependent on the use of efficient methodology in the framing of the national plan. The first requirement for this purpose is the development and improvement of national statistics, and—its corollary—the development of the statistical organisation. In this country the coverage and quality of statistics for national planning and development are extremely poor. For example, there are no reliable estimates of output or investment in the private sector. The country even lacks an adequate index of prices which can be used to ascertain say, changes in the size of the national product, or its structure, in real terms. The methods by which some important statistics are collected and treated leave much to be desired. Moreover, besides the standard data which are normally collected and compiled by Government departments, national planning requires other data for comprehensive analysis and reasonably reliable forecasting. Few Governments possess a full armoury of such statistics, but most governments, including some which are not wedded to planning, have organisations which can collect the statistics, if necessary, *ad hoc* and provide them to serve the particular needs.

POPULATION AND EMPLOYMENT

Population

The population of Ceylon continues to grow at a very high rate and the rapid increase in the population has today become one of the important factors to be reckoned with. It is estimated that the present rate of growth of the population is about 2·8 per cent per annum and this rate is one of the highest in the world. It is also estimated that if the present rate of increase persists the population of Ceylon will double itself in about 25 years time.

The success of any development programme will be in some measure hampered if due attention is not paid to the problem of the rapidly increasing population. In a country where population is growing rapidly and capital resources are limited, the achievement of rapid economic development depends among other things, on the capacity of the economy to increase its level of investments. But the high fertility and low mortality which characterise the population growth in Ceylon has resulted in an age-structure in which there is a large proportion of children who are dependents and consequently a small proportion of adults who are earners. Nearly 42 per cent of the population is below 14 years of age. A heavy youth dependency means that a substantial portion of the national income goes to maintain young persons with no immediate benefit to the community.

It is, therefore, clear that efforts to raise the standard of living will have to be greater if the population increases at a rapid rate. Conversely, a slower rate of population growth would permit a faster improvement in living conditions. It is essentially for this purpose that the country embarks on a vigorous programme of economic development.

Employment

The effect of the rapid increase in population is being reflected in the work-force of the country. The past programme estimated that the work-force of the country would be about 3·9 million in 1964. For purpose of the present programme increase in the work-force has been calculated on the basis of the results of the Consumer Finance Survey carried out by the Central Bank of Ceylon in 1963. According to the revised estimates, the work-force of 3·460 million in 1964 will increase to about 3·557 million in 1965, or by 97,000 over the year.

In an under-developed country it is not easy to obtain annually precise estimates of the numbers unemployed. Employment Exchange statistics as a measure of unemployment are subject to certain limitations. These figures represent only a fraction of those who are unemployed. Registration at the Employment Exchanges is voluntary and the statistics of registration would, therefore. exclude those unemployed persons who have not registered themselves at the Exchanges. In Ceylon, most of the Exchanges are situated in the urban areas and it is likely that unemployment in the rural areas will not be fully reflected in the statistics maintained by the Employment Exchanges. Nevertheless, estimates based on the preliminary results of the Central Bank Survey show that in 1964 there were about 469,000 persons who are involuntarily unemployed.

It is also estimated that nearly 80 per cent of the work-force is in the rural areas. The bulk of the rural population is dependent on agriculture and allied pursuits for its livelihood. While the plantation sector provides employment for about 1 million persons at present, the rest of the rural work force is employed or seeks employment in the non-plantation rural sector. The significant question, however, is the extent to which the rural work-force is employed and how many days work they have. According to the results of a sample Survey of Employment, Unemployment and Under-employment carried out by the Labour Department in 1959, it was found that only about 40 per cent of the employed persons in the rural areas of Ceylon had more than 20 full days work in a month in the various seasons. The survey also indicated that 31 per cent of the paddy cultivators have no work and 65 per cent have on the average less than 15 days work per month. In respect of the other cultivators it was found that 29 per cent have no work and 62 per cent have on the average less than 15 days work per month.

Under-employment and seasonal unemployment are features characteristic of and inherent in a predominantly agricultural economy. The highly seasonal nature of the agricultural operations results in long periods of enforced idleness. During certain parts of the year workers in agriculture are not fully occupied, intensive farm operations being carried out only during five or six months of the year. On the one hand, the incomes from their occupations are hardly adequate for the peasants to keep themselves reasonably above want and on the other, they do not have any supplementary employment available during off-seasons to augment their incomes. Further, apart from the fact that a section of the rural population does not own any land, the outmoded land relations in the area keep the growing families tied to small and uneconomic land holdings. As a result, with the increase in population the supply of agricultural labour far exceeds the number required to produce the existing output with existing techniques of production. In other words, the number engaged in cultivation bears no relation to the number actually needed for work. There is, therefore, a surplus or redundance of labour on the land. Since farming is largely a family enterprise, the surplus agricultural labour finds expression not so much in the existence of mass unemployment as in the phenomenon of chronic under-employment.

Another feature of the employment situation in Ceylon is the growing unemployment among the " educated ". Annually over 10,000 students get through the GCE Examination and nearly 900 students graduate from the Universities. While on the one hand employment opportunities for the " educated " are limited, on the other these youngsters are not prepared to accept any job which they consider beneath their status or educational achievements. Because of the large numbers leaving school annually and because of the limited employment opportunities available to this category of workers, the problem of employment of the educated is becoming more serious every year.

The total number of employment opportunities which may have to be created in order to completely eliminate unemployment during 1964–65 would be as follows :

Backlog of unemployment in 1964	469,000
Increase in labour force 1964–65	97,000
TOTAL	566,000

Undoubtedly this cannot be done in one year. The problem has to be solved in a reasonable period of time.

The creation of employment opportunities of this order is not a task that could be easily fulfilled at the present stage of development of the economy. It is true that an important objective of planning is the creation of opportunities for full employment, but there are other equally important objectives such as increased output, equitable distribution of income, etc. that have to be taken care of in drawing up a programme of soical and economic development. In the context of limited investment resources a development programme cannot be entirely employment oriented. In an underdeveloped country the problem of unemployment can only be solved after a period of intensive development. Nevertheless, over a short period every endeavour will be made at least to prevent a further deterioration in the unemployment situation.

In estimating the employment opportunities that will be created during the year 1964–65 a distinction was made in regard to constructional or revolving employment and operational or permanent employment. The process of putting up a building for a factory or clearing a jungle for cultivation or constructing a road would create opportunities for employing labour for construction though on a temporary basis. On completion of construction certain amount of labour will be needed to operate the projects. Further, apart from the employment opportunities that will be created as a result of the investments to be made during the coming year, a certain amount of additional employment will also flow out of past investment during the next year. For example, as a result of the replanting and rehabilitation programmes carried out on the tea estates in the past years, there will be increasing yields in the coming years. The increase in yield will lead to the employment of additional labour for plucking, etc.

It is estimated that about 39,700 additional job opportunities of all types will be created during 1964–65. The additional employment is distributed as follows :

Agriculture	23,954
Industries	12,196
Social Services	3,544
TOTAL	39,694

In the agricultural sector, the colonisation schemes will be responsible for the creation of a large number of employment opportunities while the replanting and rehabilitation programmes in the plantation industries would account for about 18 per cent of the employment opportunities created in the agricultural sector. The major irrigation schemes will not contribute substantially to the increase in employment opportunities since the large labour force already employed in schemes like the Gal Oya will be transferred to work on the new schemes like Uda Walawe. The industrial projects envisaged in the programme will account for a little over 12,000 additional jobs. In this sector it is the small-scale and cottage industries, which are usually labour-intensive, that will provide opportunities for a large amount of employment. In the field of social services, about 3,500 additional jobs will be created as a result of construction of schools, hospitals and houses.

It is necessary to qualify the employment estimates referred to earlier. In the first instance these estimates are based on the proposed investment programme of the public sector and do not take into account the part played by the private sector. Secondly, these estimates are confined only to constructional and operational employment created as a result of investment in certain specific projects and do not include employment in the several ancilliary activities such as trade, transportation, distribution and other service occupations of a varied character that would arise in the process of agricultural expansion and industrial development. Thirdly, these estimates have been worked on the assumption that the investments during the year would take place in the manner and to the extent envisaged in the programme.

The public sector investment programme to be undertaken during the next year will therefore create only about 39,700 additional jobs. This may be compared with an increase in the work-force of 97,000 during the same period.

THE BUDGET AND THE DEVELOPMENT PROGRAMME 1964-65

The Short Term Implementation Programme for the three year period 1961-62 to 1963-64 had as its main objective the raising of per capita real income by 2 per cent annually. The performance of the economy during the first two years of this period however was not adequate to achieve this objective. This was largely due to the unfavourable conditions obtaining in the external sector. As against this the domestic sector showed an expansion in output. It is thus clear that unless definite attempts are made to strengthen the domestic sector so as to reduce the impact of any disturbance caused by unfavourable export price fluctuations, it will be difficult to maintain a high rate of growth in the economy.

With an annual growth rate of 2 per cent per annum in per capita real income it would take about 35 years to double incomes. This is a rather slow rate of growth, but a higher target has to be ruled out since it will be difficult to achieve it within a short period.

In this programme, the minimum investment targets have therefore been worked out on the basis of obtaining a 2 per cent increase in per capita real income every year. It may, however, not be possible to maintain this rate uniformly over the period but, in any event the average level of the growth rate should be maintained at 2 per cent. Once the economy is able to achieve and sustain this growth rate, it will provide a basis for achieving a higher rate of growth in the future. For this purpose it is necessary to ensure that as income grows a higher percentage of this increase is channelled into investment.

One of the prerequisities for the attainment of a high growth rate is the provision of adequate social overhead capital. This may not provide immediate returns but will help to strengthen all sectors of the economy in the long run.

It has been repeatedly mentioned in development proposals of the past that industrialisation is the basis of rapid economic development. In fact, the base necessary for industrialisation has been in existence in this country for over a century in the advanced plantation sector of the economy, which alone accounts for nearly 33 per cent of the national income. The expansion of demand for industrial goods can, therefore, be maintained and the rate of industrial development accelerated by strengthening this sector. Unfortunately, despite the existence of this rich plantation sector there has been no change in the structure of the economy. As the break-through towards industrialisation gathers momentum, productivity will rise both in the agricultural and industrial sectors and this will help to effect the desired changes in the economy and create the necessary conditions for a rapid and accelerated growth in the future. As stated earlier, it is with this aim in view that the attainment of a 2 per cent per capita growth per annum has been planned.

There is a persistent handicap for economic planning in this country, *viz.*, the absence of detailed basic statistics covering all sectors of the economy. In the absence of such data the relationship between the rate of investment and the rate of economic growth has to be established through the capital output ratio. With its help it is possible to estimate the capital requirement necessary to give a certain output target. Thus a capital output ratio of 3 : 1 indicates that to obtain an output of Rs. 100, an investment of Rs. 300 is required. This method of estimating capital requirements however has its shortcomings. In the first place it is difficult to measure precisely the contribution of capital to a given output. Secondly, there is a time lag between the actual investment and the realisation of output from that investment. Thirdly, technological changes, economy in the use of raw materials and changes in quality make it difficult to use a past capital output ratio for future planning.

Past ratios are, however, useful in order to spotlight the weaknesses in the economy. A capital output ratio of 3·5 was observed in the 1950s. In recent years, especially after 1959, the capital output ratio has risen to about 5 for the period 1959 to 1963. This is considered high for a country like Ceylon which still has not industrially developed. It can arise from many factors.

The absence of an adequate amount of social overhead capital will result in bottlenecks in the various sectors of the economy and retard economic development. Investments in social overhead capital have assumed large proportions. They do not yield immediate results. A country normally grows at a rapid rate mainly because of social capital accummulated in the past. Thus investment in education, health, and public utilities is expected to give an accelerated rate of growth in the future. However, investments in social overhead capital would in the immediate future raise the capital output ratio.

A high capital output ratio may also be due to building up of excess capacity, misallocation of resources, waste resulting from wrong type of investments, inefficiency in the use of resources, lack of technical know-how, lack of administration skills and also corruption.

When a country is trying to achieve a high rate of industrialisation accummulation of excess capital may be unavoidable. But lack of proper direction and planning could lead to a building up of capital very much in excess of the requirements. This programme has been drawn up on the assumption that there will be control of the progress of every development scheme so as to avoid waste, corruption, inefficiency, etc. Thus, though the capital output ratio observed in the recent past was close to 5 this programme has been worked out on the capital output ratio of 3·5 which is the same as that assumed for the first implementation programme. Taking into consideration a capital output ratio of 3.5 and a growth rate of 4·8 per cent in real terms, the expected gross domestic product broken down by its main components is shown in the following table for the year 1964–65.

GROSS DOMESTIC PRODUCT AND ITS CHIEF CONSTITUENTS (RS. MILLION) AT 1960 PRICES

		1964–65
Gross Domestic Product	(100)	7,290
Agriculture and Fisheries	(43)	3,135
Trade and Finance	(12)	875
Industry	(8)	583
Construction	(6)	437
Transport and Communications	(8)	583
Housing	(3)	219
Services	(13)	948
Public Administration	(7)	510

Note.—Figures in brackets show ratios of composition.

This capital output ratio of 3·5 for a country like Ceylon which generates only 8 per cent of Gross Domestic Product from industry is still too high. It could be brought down to a more resasonable level by proper phasing of planned projects and control of planned expenditure at every stage of the investment plan. It will, however, be difficult to achieve an appreciable reduction in this ratio over a short period. Increase in efficiency coupled with a persistent desire to economise on the part of people themselves would pave the way for lowering of the capital output ratio.

In order to attain a growth rate of 2 per cent per capita annually it will be necessary to invest 16·8 per cent of the Gross Domestic Product. The gross investments in 1963 was nearly 15 per cent of Gross Domestic Product at 1959 prices. It should be remembered that in the past Ceylon has consistently invested nearly 15 per cent of Gross Domestic Product but achieved a very slow rate of growth in per capita real income. The raising of the investment level would not by itself enable a higher rate of growth. There should be checks on investments and control of such investments at every stage and the way thus paved for a higher rate of growth.

The total investment requirement (private and public sectors) to provide for a growth rate of 4·8 per cent per annum (or 2 per cent per capita) for the year 1964–65 is estimated at Rs. 1,225 million at 1960 prices.

This programme uses the 1960 prices for calculating investment requirements and output targets. Retail prices have shown an upward trend in recent years. The Consumers Price Index has risen nearly 8 per cent between 1960 and June 1964. Thus, if this index is taken as a measure of the rise in prices the amount of investment at current prices required to give the growth rate of 2 per cent per capita real income is about Rs. 1,325 million.

The public sector investment programme at current prices is given in the following table :—

	1964-1965		
	Total	*Budgetary*	*Extra-Budgetary*
Social Overheads	327	270	56·9
Health	26	26	0·2
Education	26	26	—
Transport and Communications	144	105	38·7
Electricity	91	78	13·0
Housing	40	35	5·0
Agriculture and Fisheries	177	136	41·2
Export Agriculture	53	26	27·4
Non-export agriculture and Fisheries	47	44	2·5
Irrigation and Land Development	77	66	11·3
Industry	141	102	39·2
Large scale Industry	124	95	29·2
Small scale Industry	17	7	10·0
Administration, Defence, etc.	49	49	—
Maintenance	75	75	—
TOTAL	769	632	137·3

The public sector investment programme for 1964–65 includes those investments both in the capital budget and outside it. This latter group includes expenditure on capital maintenance met out of the current budget and other expenditure financed from extra budgetary sources.

It can be seen from the above table that the Government hopes to spend a little over 40 per cent of total planned investments of the public sector on public utilities and other social overheads that are so necessary for strengthening the industrial base. The industrial sector will obtain external economies from such a development programme. Thus improvement of transport facilities, health, education, power and housing constitute the infra-structure that will accelerate future economic growth while at the same time widen the industrial base.

The capital budget of the public sector for the year 1964-65 is estimated at Rs. 769 million. The figure of investment given in the above table is a gross figure which includes capital maintenance, and public investment that takes place outside the budget through Corporation reserves, from loans raised by the Government but not reflected in the Budget and from the tea and rubber cesses.

SECTION III

The Programme by Sectors

AGRICULTURE

The agricultural sector by reason of its tremendous potential for future development has received the greatest emphasis in every plan so far formulated. It contributes nearly 95 per cent towards the export earnings of the country. At the same time about half the country's consumer requirements of which agricultural commodities account for nearly 95 per cent are imported from abroad. These figures indicate the contribution, actual and potential, of agriculture to the national economy. The broad agricultural perspective thus lies in expanding our export base and ensuring a high level of earnings, while making every effort to increase domestic production and reduce dependence on imports.

With other countries taking to the cultivation of tea, the international market for tea is not likely to be as dependable as it was for our export earnings. Exports of rubber are not only confined to a small number of countries but face the threat of competition from synthetics. In these circumstances the export sector is becoming increasingly vulnerable to external forces.

In spite of the increasing production and exports, the value of export earnings is not likely to show any significant increase. Parallel with the efficient maintenance of the whole plantation economy, the export sector should be developed under a planned scheme of diversification. Minor crops like spices for which the country has a world reputation have been neglected for some time past. They have to be rehabilitated and extended. Cultivation of fruits like pineapple and passion fruit have to be extended on a much larger scale. New crops like cashew and kenaf, for which most congenial agro-climatic conditions prevail in Ceylon, show a very high potential both for export and local industry.

In the non-export sector, production has increased but food imports still continue to be of the order of Rs. 700 million. This is an anomaly in a country like Ceylon where nearly three-fourths of the total area still awaits exploitation and a coastal belt of 876 miles provides unique facilities for fishing round the year. The objective of public expenditure in this sector is to attain as early as possible self-sufficiency in paddy, fish, subsidiary crops and dairy products. With the extended facilities for irrigation, there is good reason to expect that the country should be able to achieve a substantial increase in the production of cotton and sugar as well.

The total production of paddy has risen by nearly 70 per cent over the last decade but there has been no reduction in the imports of rice. At present 55 per cent of our requirements are met from local production under a scheme of inducements whereby the cultivator is paid for his produce nearly double the world market price and is also granted a subsidy of 50 per cent for the use of fertilisers. Food Production can be a cheaper method of achieving import substitution and saving foreign exchange than the manufacture of industrial goods behind high tariff walls. It costs about the same to produce rice locally as to import it from abroad. On the other hand, most of the other locally produced goods cost more than their foreign counterparts. This consideration apart, no country can afford to be dependent for its essential supplies. Both extensive and intensive methods of cultivation will have to be employed in order to achieve this objective.

Government farms so far have been running at a loss. It has already been decided to identify each of them according to its purpose such as research, education, extension and multiplication of planting material as well as livestock. The desirability of handing over all the Government Farms intended for production to a Corporation proposed to be set up for the purpose, is under consideration. State Farms administration is also being reorganised with a view to allocating specialised functions to officers to ensure efficient management.

It is estimated that there are about 500,000 unmilked cows while our annual bill on the import of dairy products continues to be of the order of Rs. 77 million over the last 5–6 years. No reliable data are available to ascertain how far milk production in the Island has risen during the last few years. But, since the consumer has a preference for processed milk over fresh milk, a reduction in these imports is possbile only if Condensed Milk and Full Cream Powered Milk plants are set up in the country. Simultaneously, it will be necessary to launch a vigorous propaganda drive for increased consumption of fresh milk which is very important from a nutritional point of view.

The problem of subsidiary crops like chillies, onions, potatoes, and pulses has so far resisted solution. The cost of locally produced chillies and onions is much higher than the price of the imported commodities. Rice continues to be the base of the non-export farm economy where diversification and development have been found to be difficult. A break-through will be possible only by launching an individual farm plan oriented extension service supported by a price incentive as well as a progressive import restriction policy. As for potatoes and pulses, the necessary research investigations will have to be completed before their results are extended to the cultivators.

The adjacent waters of Ceylon have been fully expoited by smaller craft and any substantial improvement in the yield can only accrue by extending operations further into the sea. As more than 50 per cent of the Island's full requirements are now being met from imports, the development of the fishing industry will lead to a substantial saving in foreign exchange.

This, in brief, is the broad perspective in which the future problems and development of agriculture are to be studied. The programme for 1964–65 discussed below has been drawn up in this context.

PROGRAMME FOR 1964–65

A review of the past performance during the first programme period indicates that, while in the export sector both investment and production have more or less measured up to the targets, there have been heavy shortfalls in the non-export sector. The programme for 1964–65 envisages an increase of 15 per cent in the production of fish during the year ; it also includes definite proposals for the setting up of a condensed milk plant at Tamankaduwa, for completing research investigations and solving other problems connected with the increased production of subsidiary crops like potatoes, chillies and onions ; and for reaching self-sufficiency with regard to forestry products. The country will be more or less self-sufficient in cigarette tobacco during the year, which of course is, a minor item. It is expected to develop an export market for this commodity in subsequent years.

In the minor export crop sector, a good deal of emphasis is being placed on pineapple and cocoa. Possibilities of expanding the production of cashew nut and some other minor export crops will also be explored.

Table 1 gives a comparative picture of the actual investment during the past few years as well as the proposals for 1964–65. Table 2 explains the corresponding physical programme.

Export Sector

As a result of an increase in the Tea Replanting Subsidy mentioned in the First Programme, there has been an appreciable increase in the number of applications under this scheme. The target of area to be replanted in 1964–65 has accordingly been put at 5,000 acres as against 3,000 acres for the current year 1963–64. As targets under the Tea Rehabilitation Scheme have already been exceeded, the issue of further permits was suspended with effect from January, 1963, except in the case of colonists selected by the Land Commissioner. A new scheme intended to convert uneconomic rubber lands into tea which came into operation in January 1962, has also evoked a fair degree of response from rubber owners and is being continued.

The replanting programme in respect of rubber launched in 1953 has started showing results. When the total estimated extent of nearly 25,000 acres of uneconomic rubber is replanted by the end of 1966 and eventually comes into full bearing, it is expected that Ceylon's total production of rubber would be increased by over 60 per cent over the existing level. In so far as the programme for 1964–65 is concerned, the target of area to be replanted has been kept at the previous year's level of 15,000 acres.

The Coconut Fertiliser and Seedling Subsidy Schemes have been working satisfactorily. Nearly a third of the coconut area in the country has already been fertilised under these schemes. The total quantity of fertilisers distributed increased from 38·8 thousand tons in 1961 to 45 thousand tons in 1963. Similarly, the acreage replanted with the seedlings distributed increased from 19·2 thousand acres in 1961 to 23 thousand acres in 1963. It is proposed to maintain these targets during the coming year 1964–65.

The last programme underlined the need to diversify the export sector. Efforts will be made to increase the production of crops like pineapple and cocoa. The land alienation programme for new crops like cashew and kenaf will also be expanded during the year.

An ambitious programme will be taken in hand during 1964–65 for the rehabilitation of the cocoa industry. This will include a Cocoa Replanting Subsidy Scheme on the lines of the existing Rubber and Tea Replanting Subsidy Schemes. It will be confined to the replanting of old plantations with young and vigorous disease-free high-grade seedlings. Under this scheme it is proposed to replant 15,000 acres with cocoa over a period of ten years and the target for the next year is fixed at 1,500 acres.

The Department of Agriculture has already inaugurated a credit scheme to help pineapple growers. Under it, loans are made available to the extent of Rs. 740 per acre for new plantations and Rs. 220 for the improvement of existing ones. Extension activities of the Department of Agriculture are also being intensified and a specialised staff will be deployed during the year to ensure increased production of this crop in selected regions in pursuance of the policy of regional specialisation. A factor limiting the cultivation of pineapple is the incidence of a wilting disease caused by a species of mealy bug. The Department of Agriculture is taking suitable action to combat this pest in the producing areas.

Irrigation and Land Development

Irrigation and Land Development which account for as much as 35–40 per cent of the investment in the agricultural sector will continue to receive priority. In keeping with the recommendations made in the first Programme, the Irrigation Department has given priority to clearing the backlog of various schemes in hand. In the coming year, investigations of some major river basins will be given priority. With the assistance of the U.N. Special Fund, a comprehensive study, survey and appraisal will be initiated during the year for an integrated and planned development of the Mahaweli Ganga basin and the utilisation of available water resources to the maximum extent in the dry zone areas.

The wasteful practice of using excess irrigation for paddy cultivation still continues. A stage has now been reached when the whole economic aspect of irrigation and land development needs to be reviewed. This will be done during the year. Further development programmes will be so designed as to ensure maximum returns from such investment.

When the Gal Oya Development Board completes all the work in hand by the end of the year it will hand over its functions to the normal government agencies.

Efforts will be made to complete the Uda Walawe Development Scheme as quickly as possible. A major portion of the work will take at least another three years to complete. This project is not likely to yield any tangible results during the year but when completed, its Reservoir will bring under cultivation about 60 thousand acres on both banks of the river out of an available irrigable land area of about 112 thousand acres in the whole basin. According to surveys carried out by the Land Use Division, an area of 9·2 thousand acres in addition to the paddy growing area is available for sugar cane and another 17·3 thousand acres for crops like cotton under this scheme.

With a view to bringing non-irrigable lands under production with crops like cashew, kenaf, and other highland food and commercial crops, land is being alienated to middle class persons, Co-operative Societies and individuals who are in a position to make the necessary investment. During 1962–63, the total area alienated for the purpose was 67 thousand acres and the target for 1964–65 is fixed at approximately 50 thousand acres.

Non-Export Sector

Imports of food grain and other commodities have been a heavy drain on the country's foreign exchange resources. It might not be possible to achieve any spectacular results during the coming year so as to reduce our bill on imports of various agricultural commodities. Efforts will, however, be made to initiate action to increase production in this sector in subsequent years.

Paddy production is expected to increase during the year by about 3·4 million bushels over the estimated production of 50·5 million bushels during 1963–64. The yield per acre for paddy has remained more or less constant during the last two or three years inspite of an annual increase of about 10,000 tons in the consumption of fertiliser and a marked increase in the area under improved seed. Besides improving agricultural statistics, which by all standards are poor both qualitatively and quantitatively, the whole question will be thoroughly investigated during 1964–65. The results of this investigation should be useful as a guide for the revision of policies for further stimulating paddy production.

The production of cotton and sugar, although quite insignificant in relation to the total requirements of the country, is also expected to be nearly doubled during the year.

Since the consumer has a preference for processed milk over fluid milk, an increased production of milk without arrangements for processing it into condensed or powdered milk will be futile as a means of reducing the import bill. During the year 1964–65, evey effort will be made to set up the Tamankaduwa livestock project and a condensed milk plant on the site, which have been under consideration for a number of years. When it is completed and, brought up to full production, it is estimated that it will produce 14·3 million lbs, of sweetened condensed milk per year, which is equal to two-thirds of the present annual imports of this commodity, and will result in an estimated net foreign exchange saving of about Rs. 6 million per year.

The establishment of a Whole Milk Spray Drying Plant at the Bopatalawa-Ambewala expansion scheme has also been under consideration for a long time. Definite proposals will be formulated during the year 1964–65 for implementing this scheme.

Progress in regard to subsidiary crops has been unsatisfactory during the past years. This is possibly due to factors like—

(1) lack of physical facilities such as irrigable upland ;

(2) mono-culture of rice constituting the base of the non-export farm economy which is inhibiting the development of diversified farming ;

(3) lack of individual Farm Plan-oriented agricultural extension services ;

(4) lack of regional specialisation in agricultural production.

Self-sufficiency in subsidiary crops is definitely the ultimate objective to be borne in mind with due regard, of course, to the laws of comparative advantage and other considerations. This would mean that for increased production of these crops, it will be necessary to organise an individual Farm Plan-oriented extension service. The results of such a scheme may not be visible in a short period. But during the year 1964–65 it is hoped to finalise all these schemes and also resolve various other research problems connected with the increased production of these crops so as to enable the introduction of a regular scheme of production during the subsequent years.

As in the case of subsidiary food crops, the production of fruits and vegetables has also been a difficult task in the past. As a preliminary step to planned production and marketing, the Producers' Union has already embarked on a scheme of granting credit to vegetable growers through Co-operative Societies. Twenty Four Co-operative Societies in the predominantly vegetable growing areas in the Island have been selected for the purpose of implementing this scheme. During the year 1964–65, this activity will be intensifed and it is expected that the production of fruits and vegetables in appropriate agro-climatic regions will be given a great impetus.

Forestry

The Forest Department has already succeeded in popularising a wider range of local timber species. The railway authorities now accept 17 species of timber as against 7 before. With the seasoning of timber in large quantities, it is expected that the resistence to the use of new species will gradually cease. There has, however, not been much progress in the forest exploitation programme as the Department is not equipped to undertake intensive exploitation of forest resources through its own agency. The working machinery in this respect is being re-organised and the production of timber is expected to rise to 4·5 thousand cubic feet by the end of 1964–65 as against 3·4 thousand cubic feet during 1962–63. When the Department achieves its target of 5·5 thousand cubic feet within the next three years it should be in a position to meet the full requirements of the country in respect of tea chests.

The scheme for undertaking a pre-investment survey of forest resources with a view to determining the lines of future development has been finalised. Experts under the U.N. Special Fund are already in the Isalnd. Besides other matters, they are examining the question of mechanisation of logging and other allied problems.

Fisheries

The near waters of the Island having already been exploited to a large extent, the future development of this industry lies in extending the operations to distant waters. The production of fish is expected to increase from 2·14 million cwt. during 1963–64 to 2·47 million cwts. in 1964–65.

Five new trawlers are being purchased from Yugoslavia and are expected to be put in commission during the year. Each trawler should bring in a catch of 800 tons of fish per year. Three additional vessels will also be commissioned during the subsequent year.

A programme has been finalised for the purchase of 10 tuna long line boats to operate from the new fishery harbour under construction at Galle. Two of these vessels are expected to arrive by the end of 1964–65 and the estimated production of each of these boats is 500 tons of fish per year.

In contrast to the past policy of issuing loans for small mechanised boats, fishermen will now be issued larger mechanised fishing boats on hire purchase terms. The boats can be out at sea for 2–3 days at a stretch. During the year 70 of these boats will be issued and applications have already been called for from fishermen. Mechanisation of local craft is also under way and up to the end of July 1964, 300 outboard motors have been issued. It is proposed to issue an addtional 300 of these boats during the year.

New varieties of fish which are popular with consumers have been introduced in the inland waters. The Department of Fisheries will stock these waters with fingerlings from the Departmental Fish Farms and give a fillip to production with an ultimate target of 100 lbs. per acre against the present production of about 40 lbs per acre. The production of fresh water fish has already risen from 8,900 cwts. in 1958 to about 75,900 cwts. in 1963. The target for 1964–65 is 105,000 cwts.

As regards the brackish waters, it is proposed to foster the cultivation of brackish water fish, *viz* : chano, and mullet, by the establishment of Demonstration Fish Farms and the sale of fish fry to private fish farmers. Special attention is being paid to the development of 43,000 acres of brackish water in the Gal Oya Valley. An acre of brackish water, according to experiments conducted by the Department of Fisheries, can produce up to 3,000 lbs. per year. There are already four private fish farmers who have constructed their own ponds. This source will be further exploited during the year 1964–65.

With the expansion of the fisheries programme as discussed above, commercial activities of the Department of Fisheries will increase to a large extent. The Ministry of Agriculture, Food and Fisheries is planning to set up a Fisheries Corporation to undertake fishing operations, processing, wholesale nad retail marketing, construction and maintenance of fisheries harbours and any other function incidental to these objects. The proposals are now under examination and, if found practicable, will be implemented soon.

Table I —INVESTMENT IN AGRICULTURE 1961–62 TO 1964–65

Rs. million

	Actual		*Provision*	*Proposals*
	1961–62	*1962–63*	*1963–64*	*1964–65*
Export Sector—				
Tea*	20·48	20·23	22·65	25·34
Rubber	15·59	14·44	16·10	17·22
Coconut	7·98	8·23	7·13	10·31
Cocoa	0·24	0·23	0·30	0·72
TOTAL	44·29	43·13	46·18	53·59
Irrigation and Land Development (Agricultural component only)—				
Irrigation Department	29·89	22·93	30·92	28·96
Land Commissioner	3·13	2·56	2·64	3·29
Land Development	3·82	3·80	5·39	3·50
G. O. D. B.	9·61	9·45	11·64†	7·48†
Uda Walawe	—	—	9·03	23·25
TOTAL	46·45	38·73	59·61	66·48‡
Non Export Sector—				
Crops and Animal Husbandry	23.12	21·83	31·92	27·50
Fisheries	8·51	8·71	13·21	13·85
Forestry	2·42	2·38	3·18	2·90
TOTAL	34·05	32·92	48·31	44·25‡
GRAND TOTAL	124·79	114·78	154·10	164·32

***Includes investment by the Departments of Land Commissioner and Land Development in respect of Rubber and Coconut.**

†The Gal Oya Board proposes to spend a total of Rs. 16·8 million during 1963–64 and Rs. 13·7 million during 1964–65. The difference between these and the figures indicated in the above Table will be met from their past savings and revenue.

‡Exclude extra-budgetory provision.

Table 2—PHYSICAL PROGRAMME IN THE AGRICULTURE SECTOR, 1961–62 TO 1964–65

	Unit	*1961–62*		*1962–63*		*1963–64*	*1964–65*
		Target	*Actual*	*Target*	*Actual*	*Estimated*	*Targets*
Export Sector :							
Tea—							
Replanted acreage under*—							
(*a*) Tea Replanting Subsidy Scheme	('000 acres)	1·75	2·66	2·25	6·76	5	5
(*b*) Tea Rehabilitation Subsidy Scheme—							
Soil conservation	('000 acres)	—	14·15	—	2·01	2	2
Supply of vacancies	„	—	12·76	—	1·99	2	2
Fertilizer	„	—	13·10	—	2·21	2	2
Production	(Million lbs.)	460	467	475	485	497	510
Foreign Exchange earnings†	(Rs. million)	1,122	1,148	1,160	1,140	1,160	1,190
Rubber—							
Replanted acreage*	('000 acres)	20	18	20	16	15	15
Production	(Million lbs.)	224	229	233	231	246	264
Foreign Exchange earnings†	(Rs. million)	260	290	270	257	299	321
Coconut—							
Production	(Million nuts)	2,600	2,811	2,600	2,523	2,800	2,900
Foreign Exchange earnings†	(Rs. million)	196	229	207	201	242	253
Non-Export Sector :							
Paddy—							
Fertilizer consumption	('000 tons)	40	38	50	47	65	65
Production	(Million bushels)	47·1	48·1	51·0	49·1	50·5	53·9
Cotton	('000 cwts.)	—	2·5	—	9·6	8·0	15·0
Sugar Cane	('000 tons)	59·0	56·1	138·0	76·0	130·0	238·0
Fish	('000 cwts.)	1,699	1,653	2,075	1,814	2,140	2,470
Forestry—							
Timber produced	(Million cu. ft.)	6·0	3·0	7·5	3·5	4·0	4·5
Regeneration Programme	('000 acres)	8·0	6·0	9·0	6·7	10·0	11·0

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* Refers to acreage in respect of which permits have been issued or will be issued.

† At 1963 f.o.b. prices.

Table 2—PHYSICAL PROGRAMME IN THE AGRICULTURAL SECTOR, 1961–62 TO 1964–65—*(contd.)*

	Unit	*1961–62*		*1962–63*		*1963–64*	*1964–65*
		Target	*Actual*	*Target*	*Actual*	*Estimated*	*Target*
Irrigation and Land Development :							
Total net area brought under irrigation	('000 acres)	14·00	17·98 (2·55)	18·70	18·49 (2·28)	26·66 (7·70)	26·41 (4·93)
(*a*) Department of Irrigation—							
(1) Major works	,,	9·70	9·67 (0·22)	13·10	9·29 (0·27)	14·82 (1·19)	11·33 (0·60)
(2) Village expansion works	,,	2·30	1·03 (0·32)	3·60	0·52 (0·26)	3·49 (1·16)	4·43* (1·13)
(3) Drainage and flood protection	,,	—	0·03 (0·39)	—	—	— (0·85)	— (0·20)
(4) Salt water exclusion schemes	,,	—	1·25 (0·31)	—	—	— (2·50)	— (1·00)
(5) Village works	,,	2·00 —	0·22 (1·31)	2·00	1·23 (1·76)	0·75 (2·00)	0·75 (2·00)
(*b*) Agrarian services	,,	—	1·76	—	1·44	1·50	1·50
(*c*) G. O. D. B. (Major Works)	,,	—	4·01	—	6·00	6·00	6·00
(*d*) Uda Walawe (Major Works)	,,	—	—	—	—	0·10	2·40
Number of colonists settled	('000 Nos.)	2·00	2·68	2·00	2·93	5·58	9·00
(*a*) Land Commissioner	,,	2·00	2·22	2·00	2·07	4·50†	7·00
(*b*) G. O. D. B.	,,	—	0·46	—	0·86	1·00	1·00
(*c*) Uda Walawe	,,	—	—	—	—	0·08	1·00

* Area of 750 acres as a result of extension of existing projects taken up during 1964–65 has been included.

† Area alienated per colonist having been reduced from 3 to 2 acres of paddy land, this figure of 4,500 is comparable with 3,000 as the original target.

Note : Figures in brackets indicate improved irrigation facilities provided to existing land.

INDUSTRY, POWER AND TRANSPORT

Investment in industry has increased steadily over the past few years and the bulk of this activity is today the responsibility of the public sector—largely Corporations. Public sector enterprises are free to operate on commercial principles and most of them serve protected markets while some of them enjoy monopolies. However, most corporations are running at a loss and their operating losses must largely be due to internal factors.

Public Corporations

A comprehensive or detailed comparative study of the working and achievements of public corporations in Ceylon is extremely difficult. Information about public corporations has not yet been systematized. They do not all maintain their accounts in the same manner nor follow the same principles in drawing them up. Most of them publish their accounts too late for the purpose of planning ; one or two do not publish their accounts at all. Very few have forward development programmes worked out in some detail. Only a very general summary of the operation of public corporations can therefore be given.

There were 16 Corporations on the register in 1962–63. Of these 13 were operating ; others were in different phases of embryonic existence. A number of them took over existing organisations ; others started from scratch. On the average, it takes a public corporation starting from scratch at least three years to begin operation. This period seems to be longer in the case of corporations in the heavier industries. The formal creation of a corporation does not immediately lead to investment on an appreciable scale, but it requires advance ear-marking of funds and reduces elbow-room for current programming. There is a strong case for shortening the pre-natal stage of corporations ; public funds should not be tied longer than is unavoidably necessary.

Of the total sum which had been invested in public corporations up to September 30, 1963, a high proportion was invested in the public corporations which had started production at least a year earlier. The value of their total output in 1962–63 was Rs. 65 million. The gross capital/output ratio for the whole group was 3·2 : 1. But within the group there were large variations, from 1·4 : 1 in the case of the Plywood Corporation to 5·2 : 1 in the case of Kantalai Sugar.

The variations were due, in part, to different degrees of capital-intensiveness of the industries under different Corporations and, in part, to differences in the ratio of actual to capacity output. This ratio ranged from 168 per cent in the case of National Textiles to 5 per cent in that of Kantalai Sugar.

Obviously, given the capital intensity in an industry, the lower the ratio of actual to capacity output, the higher the cost of production per unit of its products.

The reasons for the failure of a number of industries to reach capacity output are various, but almost in all cases the main cause is difficulty of supply of raw material needed. Most Corporations enjoy monopoly in sheltered local markets, which are wide enough to absorb their capacity output. Most Corporations, again, use domestic raw materials. Hence once a Corporation has its necessary plant and equipment, its progress towards capacity output can be retarded only by difficulties of supply or deficiencies in oganisation. In the case of the two Sugar Factories, it is the shortage of sugar cane ; in the case of chemicals it has been over-capitalisation, the decision to set up a large plant before the extent of the market had been adequately explored.

But the fact that a Corporation has reached capacity output does not guarantee that it can cover its total costs out of its sale proceeds without charging a high price to the consumer. The accounts of the Cement Corporation, for example, which is operating at 80 to 90 per cent of its capacity, show substantial profits in recent years, but domestic cement has been selling at Rs. 170–180 per ton ex-factory as compared with a c.i.f. price of around Rs. 100 a ton of foreign cement.

Thus, there are problems of efficiency besides that of raising actual output to the level of capacity output. These are, broadly speaking, connected in one way or another with inadequate supply of raw materials (sugar production), location (cement), inadequate supplies of qualified technical and administrative personnel, deficiencies in organisation etc.

Some of these difficulties have their roots in the colonial history of the country. During that long period, the organised sectors of the economy were concerned almost wholly with the export of a few agricultural products, the import of consumer goods and the ancillary business of banking and foreign exchange. The natural resources of the country were inadequately investigated, and no attempt was made to diversify the economy. The one important raw material, *viz* : rubber, that could have been the basis of an industry was exported in its crude form. The people had small opportunity to acquire industrial skill or managerial experience.

The country had thus to start its industrial career from scratch. To produce sugar it has to take up large scale production of sugar cane for the first time ; to produce yarn it has yet to grow cotton. To establish industries, it has to import almost every piece of plant and machinery, and to run them it has to import intermediate goods and train workers and executives.

Industrial development has thus been retarded by lack of 'complementarities'. It was not possible to start all economic activities that supported one another simultaneously ; but a beginning had to be made with some, resulting in deficiencies and bottlenecks. One of the main purposes of planning is to remove or reduce these as much as possible; indeed planning is the only technique by which this can be done effectively.

The main projects in the public sector for which provision has been made in the first year of the Programme include—

(*a*) Iron and Steel (Investment Rs. 27·2 million)
(*b*) Cement (Investment Rs. 19·6 million)
(*c*) Tyre and Tube (Investment Rs. 28·2 million)
(*d*) Fertiliser and Petroleum Refinery (Investment Rs. 14·3 million)
(*e*) Textile Factory—Pugoda (Investment Rs. 8·5 million)

Of these, the fertiliser factory, the petroleum refinery, the Pugoda textile mill and the Puttalam cement factory will be completed only several years later.

Work on the second kiln at the K. K. S. Cement Factory is expected to be completed by the end of 1964. Improvements to the existing plant will be completed by the end of 1965. The Clinker project at Galle will be completed by mid 1965. After the completion of these projects the output of the Cement industry will be stepped up to 275,000 tons of finished cement from the present output of about 100,000 tons. The total production in 1964–65 is expected to be about 120,000 tons.

The Iron and Steel factory (rolling mill) with a capacity of about 60,000 tons of rolled steel and wire products is expected to be completed by mid 1965. The production target for 1964–65 is 5,000 tons.

The tyre factory with a capacity of 250,000 tyres and tubes is expected to be completed in July, 1965. Production is expected to commence only in 1965–66. The following projects will also be completed in 1964–65 :

(*a*) *Hardware and small tools*—this factory is expected to be ready for the production of items such as mammoties and hinges by April, 1965. The total production in 1964–65 will be about 100 tons.

(*b*) *Small Industries Corporation*—brick and tile factories at Anuradhapura and Weuda (each with a capacity of 2 million tiles and 500,000 bricks) are expected to be completed by October, 1964. The factory at Mullaitivu with a capacity of 1 million tiles and 600,000 bricks is expected to be completed by December, 1964. The total production of the Small Industries Corporation will be 8 million tiles and 2 million bricks in 1964–65 as compared to 3·2 million tiles and 0·8 million bricks in 1963-64.

Small Industries

Investment in Small Industries in 1964–65 is expected to be Rs. 25·20 million. Of this Rs. 7·40 million is budgetary. The major part of the budgetary figure represents investment in a project for the establishment of 2,400 powerlooms on a decentralised basis. From its existing handlooms and powerlooms the Small Industries Department is estimated to have produced 18 million yards of cloth. The 2,400 new looms are expected to be commissioned over a period of 3 years commencing 1965. They are expected to produce 36 million yards of cloth, working 2 shifts per day.

Private Sector Industry

PRIVATE SECTOR ACHIEVEMENT DURING 1962–64

In the Ten Year Plan as well as in the first Programme, the major portion of investment in industry has been allocated to the public sector industries. In the first programme the private sector industries had been allocated Rs. 125 million only as against the provision of Rs. 400 for the public sector. Notwithstanding this comparatively smaller allocation for the private sector, its achievement during the period 1962–63, as indicated by the volume of investment, employment and production has been very much higher than what was estimated and provided for in the Programme. The expanding home market, the continuing operation of import restrictions and the Government policy of fostering industrial development are the main causes of the large increase in investment in this sector. Another indication of this is the large number of new industries seeking acceptance of the Government.

The figures in the following Table indicate the provision in the first Programme for investment in the private sector and the actual investment during the period 1962–64.

Table

Rs. million

	1962	*1963*	*1964*
Provision in the first Programme	40·60	40·60	43·80
Actual Investment	101·30	143·80	132·00

Investment in the private sector is not subject to the procedural delays, which partially explain the slow pace of achievement in the public sector. While public sector enterprises may at times be considered to take policy decisions on non-economic grounds, private industry is singularly free from such an obligation. This advantage as well as the favourable climate provided by an expanding home market and the government policy of import substitution have together given a fillip to private investment in industry. It is noteworthy that during this period foreign capital to the value of Rs. 12 million has been attracted into the private industrial sector. The new ventures in the private sector are generally of the medium and small scale type and they mature more quickly. This, in turn, accounts for the substantial increase in industrial production and employment during this period which is indicated by the following figures :

Table

	1962	*1963*	*1964*
Value of industrial production in private sector (Rs. million)	310·40	345·90	370·00
No. of persons employed in private industry	14,700	15,800	17,900

This growth in investment, production and employment are not the only indications of the favourable climate which induced the large spurt of activity in this sector. The Industrial Acceptance Committee of the Ministry of Industries has approved over 400 new medium and large scale industries and 700 small industries since 1961. Some of these have been established ; and the others are in process of being installed.

It is important to note that while investment, production and employment in industry in the private sector have been increasing substantially during the period, development has been lop-sided, *i.e.*, there has been far too much investment in some consumer goods industries producing confectionery, plastics, shirts, etc., while others, especially those producing intermediate and investment goods, have not developed sufficiently to meet existing demands.

FUTURE POLICY

A review of the impact of the present policy of Government in regard to private sector industry should take note of achievements so far gained, the problems encountered by entrepreneurs as well as a reliable assessment of the home market. At the request of the Minister, the Department of Economics of the Ceylon University and the Ceylon Institute of Scientific and Industrial Research have undertaken a survey of the industries in the private sector, the results of which are expected to be reported to the Ministry by the end of July 1964. A review of industrial policy in so far as it affects the private sector has, therefore, to await the outcome of this survey.

In the meantime, the Ministry of Industries has decided that no further applications for new industries should be considered and that steps should be taken to consolidate the achievements already gained, as a prelude to a study of the directions which further industrial development should take. In this process and in the selection of criteria for approving new ones, the long-term value of these projects would form a notable consideration. The advantage resulting from import substitution would be another factor but not an overriding one. An industrial project must integrate itself into the economy as it is now constituted and operating ; it must draw its necessary inputs more from the existing or developing sectors of the economy than from imports. Further it must also ensure the existence of immediate and expanding markets to support it. Further, besides functioning as part of the present structure of the economy, it must fit into the next phase of economic development.

EMPHASIS ON INVESTMENT GOODS INDUSTRY

Generally priority will be given to investment in projects designed for the production of investment and intermediate goods, especially of the type of heavy industries. The Ministry is presently investigating applications to set up factories to assemble motor cars, tractors, water pumps, etc. While applications to set up industries of this type will be considered on their respective merits, in so far as most consumer goods industries are concerned, the future will be one of consolidation, improvement of the quality of the products and promotion of the export of those lines of production where capacity is in excess of local demand.

The introduction of rigid import restrictions in January 1961, set the pace for the establishment of many medium scale consumer goods industries of a quickly maturing type. This accounts for the rather phenomenal increase in industrial production in 1962 and 1963. During 1964 there has been a slowing down of the pace of industrial development due to various causes. This is indicated by the fact that during the first half of 1964, licences to import machinery, plant, equipment, etc., have been sought to the value of Rs. 24 million only.

NATIONAL PRIORITIES

A major difficulty in forecasting activity in the nature of investment, production and employment in the private sector has been and still is the unco-operative attitude of private industrialists to requests for information. Almost all industrialists and firms were sent questionnaire forms seeking data on these aspects of industrial activity; but not even one-tenth of them furnished replies. It is, therefore, hazardous to estimate on any realistic basis the scale of possible increments in investment, production and employment in the private sector. Consequently, no targets have been fixed for the private sector in the present development programme.

A scheme of national priorities is now being formulated. Foreign exchange for industry will be allocated strictly according to this scheme of priorities. A development programme for the private sector comparable to the one for the public sector will then be drawn up based on this scheme of priorities.

PRICING AND QUALITY CONTROL

The need to provide the machinery for public control of the standard and quality of industrial products has been realised and a bill for setting up a Standards Bureau has been presented to Parliament. Pending the passage of this Bill, some form of quality control is being exercised on a voluntary basis by the Ceylon Institute of Scientific and Industrial Research.

GENERAL

It is most desirable that a clear-cut policy be decided upon as to the future spheres of the public and private sectors. The absence of plans for the private sector to supply commodities in common use but not produced by the public sector has led to some unfortunate results. For instance, it would appear that the production of cotton textiles has been reserved to the public sector while the private sector has only been permitted to embark on synthetics. The result is that there has been gross under-production in certain lines of cotton textiles, *e.g.* cotton socks, whereas there has been a very considerable increase in the production of synthetics, although the latter are less suitable for our climate and are not available at prices that suit the purse of the common man.

It is also necessary to control production. This is especially urgent in certain fields, *e.g.* textiles. A number of agencies in the sphere of textiles are now engaged in production and it is quite likely that there will be over-production in certain lines and under-production in others in the near future. In this case there are three types of units ; (*a*) the factory, (*b*) the power loom and (*c*) the handloom. It is necessary that control be directed towards defining the expected production of each of these three types of units with reference to the type of fabric to be assigned to each of them. The Department of Small Industries has a powerloom project which will eventually employ 2,400 looms and produce 36 million yards of cloth. It is essential that this project and another similar project on which the Co-operative Department is now embarking be brought into the proposed scheme of control to ensure that their output would be both directed on economic lines and towards the production of those types of consumer goods for which there is an urgent and pressing public demand.

Power

Power is a basic economic activity ; all economic activities lean on one another, but they depend more on power than on any other activity. Hence the supply of power in a country must be adequate and cheap. Indeed, the rate at which the supply of power increases may be used as an index of the economic progress of the country.

Ceylon is low down in the list of countries in terms of installed capacity and consumption per head. In 1962 only 382 square miles were supplied with electricity, which was the overall national position ; about 2/3rds of the total area lie in two provinces, while there are large tracts of other provinces which are practically without any supply of electricity. Moreover, power in Ceylon is costly.

In 1962–63, the sale price of power to the consumer was 14 cents per unit. About a quarter of the cost of producing cement in this country is accounted for by expenditure on fuel and power. It is estimated that international competitive manufacture of nitrogenous fertiliser by the electrolytic process requires that electricity should cost no more than about one cent per unit. The present cost in Ceylon is 10 cents.

The high cost of electricity, in this country, has made it a scarce commodity for the mass of the population. Only about 6 per cent of all domestic consumers use electricity and since the average consumption is about 1,600 kwh per household a year, the consumers must generally belong to the richer sections of the community. Outside Colombo and a few other towns, the distribution of electricity is handled by local authority licencees who sell it at prices varying from 36 cents to 85 cents per unit. Evidently, only the rich can afford to use electricity in these areas.

But while power is a basic essential commodity, it is costly to produce. Power projects are highly capital-intensive. In Ceylon the fixed assets of all power projects in 1962–63 were worth Rs. 376 million while the value of the energy produced amounted to Rs. 44 million only, giving a capital output ratio of 9 : 1. Again in this country power projects have a high import content ; about half the total cost of a project consists of payments for imported goods and services. Moreover, power projects take years to build. On the other hand, power projects are classic example of " economies of scale ". As the size of a project and the quantity of power produced by it increases, both capital and operating costs decline rapidly.

These opposing facts make the problem of investment in power an extremely difficult one for a country with limited resources in capital and foreign exchange. Investment has to be made on a large scale and long before it yields returns. Planning power projects therefore has to err on the side of excess rather than deficiency. There is, of course, some risk of unused capacity; experience almost all over the world indicates that the demand for power increases at a higher rate than national production. In fact as the supply of power is increased and its price comes down, demand responds by leaps and bounds. In Ceylon in recent years the total amount of energy sold and the number of consumers have increased by 10 per cent and 6 per cent respectively in spite of the high price of power.

At present the primary responsibility for the setting up of industrial establishments lies with the Development Division and the Department of Rural Development and Small Industries. It is essential, that the Department of Government Electrical Undertakings, as the agency responsible for the supply of electrical energy, and the Department of National Planning should also participate in these decisions, since both the location of these projects and the time table for their construction is of vital importance for power programming. This is particularly so of power-intensive industries like the Fertilizer Factory.

Transport and Communications

RAILWAY AND ROADS

There were no major developments in the Ceylon Railways between 1959–60 and 1962–63. The length of the railroad remained at about 900 miles ; most of it was single track. Rolling stock increased slightly, there was some replacement of steam locomotives by diesels, co-ordinated rail-cum-bus services were further extended and some investment made to intensify traffic on busy routes by the installation of colour lights.

The number of passengers travelling by rail-road increased from 20·9 million to 23·8 million or by 15 per cent. But goods traffic showed a slight decline in spite of the imposition, during this period, of restrictions on the import of road vehicles. Apparently, the Ceylon Railway did not receive its share in the general development of the country and the associated growth of traffic. According to a recent survey, three-fourths of the annual increment of goods traffic were being absorbed by road transport.

The railway is, however, only one element in the transport system of the country. The other, and increasingly important, element is road transport, and public investment in railways can be discussed only in the context of the relative merits of these two forms of transport from the point of view of the needs of this country.

ROAD TRANSPORT

The responsibility for road transport in Ceylon is shared by the Government and the private sector. The former is responsible for the maintenance, improvement and extention of roads as well as, through the Ceylon Transport Board, for passenger bus traffic. Private enterprise meets the demand for goods traffic by road.

The public bus service is the monopoly of the Ceylon Transport Board which began as a Corporation on January 1, 1958, with some 3,000 buses taken over from 78 private companies. The number of buses operated by the Corporation has remained at, more or less, 2,500. But between 1959 and 1962 the total mileage done yearly by C. T. B. buses increased from 117 million miles to 123 million miles, and the total number of passengers rose from 513·5 million to 665·9 million or by 30 per cent. The route mileage of the C. T. B. went up from 22,000 miles to 31,000 miles.

The losses and profits made by the Transport Board and the government's contribution to its capital between 1960–63 are shown below—

Table

Rs. million

	1960	*1961*	*1962*	*1963*
Loss (−) or Profit (+)	−10·2	−2·4	+3·2	+3·4
Government contributions	12·8	25·6	6·5	9·8

The Board operated at a loss from its inauguration in 1958 to 1961. In the last two years, it has shown profits. Since the operating expenses of the Transport Board included charges for depreciation and interest, its position relatively to the Railway is less unfavourable then the comparative figures of the two organisations show. These facts and figures raise some fundamental issues regarding the future of the Railway vis-a-vis road transport. The issues have an immediate bearing on the question of relative investments in roads and railways in this country. For nearly two decades the Ceylon Railway has been a losing concern despite the growth of the national economy. The C.T.B. seems to have got out of the woods, after an initial period of losses. The total transport services done by the C.T.B. (and probably by private transport goods traffic) far exceeds that provided by the Railway ; the route mileage of the C.T.B., the total mileage done by buses annually and the number of passengers carried by them are much greater than the corresponding figures of the Ceylon Railway.

In the competition for traffic, railways are losing to road transport all over the world. In Ceylon, with the short distances to be covered, the concentration of population in limited areas, its well-distributed net-work of roads, and the character of its goods traffic, it is a question whether a railway of present dimensions can ever be a paying concern and whether it should not be gradually pruned to the size that experience may show to be profitable. Under reduced proportions, there will be more scope for expenditure on the betterment and intensification of railway services.

Thus, so far as one is concerned with return on new investment, the argument is in favour of road transport and against the railway. But the Government has, over the years, invested large sums, amounting to more than Rs. 500 million in the railway. The Railway equipment is there and is technically capable of rendering an appreciable amount of transport service without further investment. Does this imply that we should increase investment in road transport and thereby enhance the already heavy loss of the Railway?

The problem is not peculiar to the relation between rail and road transport. It is common to any dynamic economy in which new techniques and new equipment are a constant challenge to old techniques and equipment. The solution, on *purely economic considerations*, is also the same in every case. Any investment which, because of changed circumstances has ceased to yield normal returns is no longer an ' asset ' ; it has become a liability and further investment in it will only increase the magnitude of that liability. The proper course then is to limit expenditure on it to the amount that is just necessary to keep the uneconomic sectors going until the existing equipment wears out beyond repair. Meanwhile, the prices charged for its products should be brought down to levels appropriate to their variable costs. The nation does not lose by this arrangement. On the other hand an attempt to bolster up the profits of the now less efficient method by restricting the use of the more efficient one only raises the cost for all users, and the total real loss suffered by them exceeds the financial return from old investment. With regard to the Ceylon railway, spending money to keep it going, beyond a limited period and still more to expand it at the expense of road transport can only bring a net loss to the community.

There is only one qualification to this conclusion and that is connected with the present shortage of foreign exchange. Extension of road transport requires new investment of which the foreign component is high, while the existing railway can provide the service without such costs. But this apparently is an argument applicable to a short term situation. Obviously as long as this situation persists the rate of expansion of road transport may have to be slowed down.

There has been no proper co-ordination of road and rail transport in the past. As a first step in this direction, a Commission of Inquiry is to be appointed to define the proper role of each form of transport. It is expected that once the Commission's task is over it will be possible for road, rail and air transport to function as one system catering effectively to the needs of the public.

1964-65 Programmes

THE PORT

Approximately Rs. 11·7 million will be devoted to Port Development. The efficient operation of the Port of Colombo so as to ensure quicker turn round of shipping and lower the incidence of handling costs is a vital need affecting the general development of the economy. The problem stems not so much from an inadequacy of facilities but through poor co-ordination between the authorities operating the facilities and those using these facilities. Certain organisational changes are in the offing which will lead to better co-ordination on the operational side, improve industrial relations and promote the co-operation of the workers in achieving higher productivity. The port now handles on the average 8,000 tons of imports and 2,000 tons of exports per day. It is expected to increase this handling capacity by 20 per cent of imports and 30 per cent exports per day during 1964–65.

AVIATION

The major aviation project is the development of Katunayake Airport. The runway is to be completed by December, 1965.

POST AND TELECOMMUNICATIONS

The major part of the Greater Colombo Telecommunications Scheme will be completed in 1964–65.

C.T.B.

During 1964–65 the Ceylon Transport Board plans to spend a sum of Rs. 26 million on capital works of which approximately 20·7 million will be devoted to the purchase of buses. The balance funds are to be spent on improvements to Depots and Garages and to the Werahera Workshop. The C.T.B. plans to run a scheduled mileage of 151·5 million miles in 1964–65.

RAILWAY

It is proposed to spend Rs. 33·75 millions on capital works on the expansion of railway facilities and improvements to the Railway. This includes the intensification of the Colombo suburban service and the extension of the railway to a point 17 miles north-east of Puttalam to serve the needs of the second cement factory.

Table 1—INVESTMENT IN INDUSTRY, POWER AND TRANSPORT

Rs. million

	1961–62 Actuals	*1962–63 Actuals*	*1963–64 Estimates*	*1964–65 Proposals*
Industry—				
Public Sector	38·39	62·32	110·85	124·10
Private Sector	101·30	143·80	132·00	57·60
Small Scale*	1·96	3·46	15·15	17·40
Power	48·47	43·74	86·71	91·01
Transport and Communications	83·20	107·91	100·98	143·70

* Includes loans from the public sector to private sector.

Public Sector only.

Table 2—PUBLIC SECTOR INDUSTRY—INVESTMENT, 1964–65

Rs. million

	Item/Project	*Investment, 1964–65*		
		Budgetary	*Extra-Budgetary*	*Total*
1.	Hardboard	1·4	—	1·4
2.	Industrial estates	0·9	—	0·9
3.	Small Industries	2·3	—	2·3
4.	Iron and Steel	27·2	—	27·2
5.	Cement	13·2	6·4*	19·6
6.	Textiles	8·5	—	8·5
7.	Ceramics	1·3	—	1·3
8.	Leather products	—	—	—
9.	Paper	2·8	—	2·8
10.	Fertilizer	14·3	—	14·3
11.	Petroleum Refinery			
12.	Tyre and tube	9·1	19·1†	28·2
13.	Hardware and small tools	4·2	—	4·2
14.	Plywoods	—	1·2‡	1·2
15.	Flour mills	4·1	—	4·1
16.	Paranthan chemicals	0·3	—	0·3
17.	Engineering Corporation	1·7	—	1·7
18.	Investigations, etc.	0·3	—	0·3
19.	CISIR	0·7	—	0·7
20.	Standards Bureau	0·2	—	0·2
	TOTAL (1–20)§	92·5	26·7	119·2
21.	Salt Department	1·7	—	1·7
22.	Geological Survey Department	0·2	—	0·2
	TOTAL (21, 22)	1·9	—	1·9
23.	Gal Oya sugar industry	—	—	—
24.	Kantalai sugar industry	—	—	—
25.	Fruit canning industry	—	—	—
26.	Condensed milk and spray drying projects	—	2·5†	2·5
27.	Alutnuwara Tile Factory	0·3	—	0·3
28.	Uda Walawe industries‖	1·3	—	1·3
29.	Contribution to capital of Fertilizer Corporation¶	2·4	—	2·4
30.	Excise Department	0·2	—	0·2
	TOTAL (23–30)	4·2	2·5	6·7
	GRAND TOTAL§	98·6	29·2	127·8
	TOTAL (Less Housing)	94·9	29·2	124·1

(*) Expected to be met from the reserves of Cement Corp.

(†) Unexpended funds from previous votes.

(‡) Expected to be met from a bank loan.

(§) Includes estimated expenditure on housing of 3·7 million in 1964–65. The total on industry would hence be the totals given here less this amount.

(‖) Provisional. The main industries now under consideration are a tile factory, a rice mill and a saw mill.

(¶) The provision shown is in connection with the establishment of a Fertilizer Corporation whose main function is to sell imported fertilizer after mixing and processing.

Table 3—PUBLIC SECTOR INDUSTRY—PRODUCTION

Industry	*Unit*	*1962–63 (Actual)*	*1963–64 (Estimate)*	*1964–65 (Estimate)*
1. Ceramics	(Tons of ceramic ware)	750	840	840
2. Mineral Sands, Ilmenite	(Tons)	15,567	30,000	60,000
3. Salt	(Tons)	21,565	50,000	50,000
4. Plywood	(3 ply sq. ft.)	13,558,000	14,000,000	14,000,000
5. Kantalai Sugar	(Tons)	1,044	1,467	4,000
6. Gal Oya Sugar	(Tons)	3,306	5,438	9,300
7. Textiles	(Lbs. of yarn)	1,956,976	2,200,000	2,700,000
	(Woven and finished fabrics yds.)	—	—	3,000,000
	(Commission finished fabrics–yds.)	—	—	10,000,000*
8. D. I. Leather	(Pairs of footwear)	158,774	215,300	215,300
9. Cement	(Tons)	74,049	90,000	120,000
10. Oils and Fats ;				
(*a*) Coconut oil	(Tons)	9,467	17,520	17,520
(*b*) Provender products	(Tons)	19,305	24,000	24,000
11. Fruit Canning	(Cwts. of canned fruits, jams, etc.)	16,254	17,100	21,500
12. Paranthan Chemicals ;				
(*a*) Caustic Soda	(Tons)	855	1,000	1,000
(*b*) Chlorine	(Tons)	215	950	950
13. Eastern Paper	(Tons)	5,341	6,000	9,000
14. Small Industries ;				
(*a*) Tiles	(Millions)	—	3·2	8·0
(*b*) Bricks	(Millions)	—	0·8	2·0
(*c*) Ayurvedic Drugs	(Lbs.)	—	—	325,000
15. Iron and Steel	(Tons of rolled steel and wire products)	—	—	5,000
16. Hardware	(Tons—Mammoties and hinges mainly)	—	—	100

*Capacity that would be available to do finishing work for the private sector.

SOCIAL SERVICES

Introduction

The main sources of finance for the continued maintenance and expansion of the Social Services are allocations from surpluses resulting from activities in the economy as a whole. It is, therefore, the policy of Government to stimulate activities and create new ones, for example, in such fields as industry and agriculture, which will yield such surpluses in the shortest possible time. The urgent need for these surpluses receives a new emphasis from the present large annual increase of population as the volume of Social Services has to expand to respond to this increase. These circumstances set a limit to the capital outlays that will be incurred in any particular year on the provision of these services. There is also another reason that tends to limit development activities in this field. In recent years, the performance levels as compared with the programmed levels of investment have been found to be low particularly with regard to education and health services. Broadly speaking, they have been below 50 per cent in some instances. Whatever be the reason for these under-expenditures, it is a fact that Government Departments and agencies carrying out projects in these fields are unable to undertake much more than what they have done recently. This is, of course, another limit to the expansion of Social Services. Programming in this field has been done with due allowance for these limiting factors.

As far as education in the general sense is concerned, and this refers to primary and secondary schools and colleges in the Island, there is a minimum expenditure that has to be undertaken every year. This minimum is determined by the increase in the number of children of school-going age seeking enrolment. The number seeking enrolment is estimated to be in the region of 125,000. On this basis an investment of a minimum of Rs. 12 million will have to be made annually for additional school accommodation.

In recent years, there has been a shift to technical education. Encouraging as this trend is, the fact has to be faced that although the Universities themselves provide technical education at the highest level, facilities for these studies are still far from adequate to meet the demands of a developing economy. The establishment of a new Engineering Faculty and a second Medical School bears this out. The first Programme had this expansion in view when it laid great emphasis on the need for adequately trained personnel at the professional, technical and vocational levels in many fields. A Manpower Survey in the country would have provided a clear picture of the technical skills needed and its absence is a factor which retards the drawing up of a clear and comprehensive programme for increased training facilities in the country.

As far as health services in the country are concerned they can be considered to be relatively satisfactory. The lower death rates and the high expectation of life at birth bear witness to it. The availability of 2,000 doctors trained in western medical science and 13,000 ayurvedic practitioners gives a fairly widespread character to the medical services and explains the satisfactory state of the nation's health.

Population growth, however, underlines the need for the expansion of these services and economic reasons indicate the desirability of this expansion taking place in the Ayurvedic sector. It may, however, be noted that the main emphasis in the field of health is given to preventive services which consist of the numerous water, sewerage and drainage schemes that are being carried out year after year. A fair proportion of the diseases that require treatment are known to be bowel diseases caused by polluted water sources. Hence the need for expansion in this field.

As far as housing is concerned, which is not strictly a social service, the main emphasis in the public sector is given to the housing units that go with numerous development schemes undertaken by the Government. These are Land Colonization Schemes, Village Expansion Schemes, etc. The housing units are part and parcel of these schemes and the priority that is given to housing is of the same order as that given to the schemes themselves. There is another category of housing that is undertaken by the Department of National Housing. The provision of housing units by this Department serves to mitigate a primarily social problem which is acute in the urban and semi-urban areas. Capital outlays on housing receive added justification from the fact that the establishment of houses in new areas tend to bring about increased economic activity in the surrounding areas. The lowest priority is given to houses that are constructed by various Government Departments for their employees. In the context of limited resources, there are compelling reasons for assigning a low priority to these housing schemes.

In the table given below is set out the investment magnitudes in respect of the different sectors. Thereafter these sectors are discussed in some detail.

SUMMARY OF INVESTMENT

	1964-65
Education	26·7
Health	26·9*
Housing	40·65†
Other Social Services	0·30
TOTAL	94·55

* Includes Rs. 0·262 millions which is extra budgetary.

† Includes Rs. 5·0 millions which is extra budgetary.

Education

Investment in education is necessarily of two dimensions, one being the need to gear the educational system to economic requirements while the other relates to the expansion of facilities to meet the increasing school going population. A review of past performance in edcuational investment yields a not too satisfactory picture. The following table indicates the envisaged investment and the actual performance in general, university, technical and other education in the years 1961–62 and 1962–63.

	1961–62		*1962–63*	
	Target	*Actuals*	*Target*	*Actuals*
1. General Education	23,763	10,846	20,282	10,678
2. University Education	11,005	9,881	10,922	9,978
3. Technical Education	3,590	1,004	3,190	1,079
4. Other Education	1,018	188	1,307	200
TOTAL	39,376	21,919	35,701	21,935

Is is seen that the shortfall in investment amounted to 44·3 per cent and 38·7 per cent in 1961–62 and 1962–63 respectively. The performance has been most satisfactory in regard to University education with an average of 90 per cent of the capital target being realised in both years. There was high pressure activity at all 3 Universities in the island to cope with the increasing demand for higher educational services, a phenomenon common to all developing nations. Where the University of Ceylon is concerned the 2nd Medical Faculty, the new Engineering Faculty and the University Water Supply Scheme are nearing completion. The Vidyodaya and Vidyalankara Universities being comparatively young had to provide for several facilities essential for University education such as Administration blocks, lecture rooms, Libraries, Laboratories, etc.

The performance as regards the school works programme has been low with 54·4 per cent and 47·7 per cent of the estimated investment in 1961–62 and 1962–63 being underspent. The reason given in most cases was the inablility of the Co-operative Societies to complete the works undertaken by them. Only about half the block provision of Rs. 15·5 million and Rs. 14·2 million made in 1961–62 and 1962–63 for the construction of permanent buildings for schools and additions and improvements to existing bulidings, was spent each year, despite the large number of schools needing repairs and renovations and the increasing school enrolment.

The achievements were least satisfactory in the field of technical education with only about one third of the investment being realised each year. Under expenditure of this magnitude in the most vital sector of education requires immediate attention.

Education is in a process of reorientation in accord with the social changes taking place at present. Emphasis is shifting from the study of arts subjects to scientific and technical studies. Basic instruction in wood work, metal work, agricultural science, etc., is being introduced from the Junior School upwards to give education the practical bias it lacked earlier. The Vocational Guidance Scheme introduced in 1957 would be further intensified in the future to help students discover their natural aptitudes at an early stage and develop accordingly instead of blundering through a process of trial and error which is both costly to the nation and frustrating to the individual.

Science education is receiving growing impetus at present and would continue to do so in the years to come. It is proposed to construct 35 new science laboratories in rural areas and equip a large number of existing laboratories in 1964–65.

Where technical education at the vocational level is concerned due attention is being given not only to the expansion of training facilities but also to widening the scope of such training. It is intended to establish a Junior Technical School in each province to provide easy access for the increasing numbers seeking instruction in technical subjects. In 1964–65 it is estimated to incur a capital expenditure of Rs. 2·9 million on technical education. Rs. 1 million of this would be utilised for the establishment of vocational training centres in Colombo and the provinces and for the workers education centre. The balance is for the construction of a Trade School at Maradana and for the completion of work together with the equipment of the new Junior Technical Schools at Dehiwala, Kurunegala and Galle. Each of these Junior Technical Schools has a capacity of 80 pupils. Even more important is the need to shift the emphasis in technical education too from the study of commercial subjects like shorthand and typing to fields more closely allied to industry, agriculture and engineering. In this connection it is proposed to set up a Directorate of Manpower to harmonise technical training with the employment opportunities available at present and likely to result in the future and also a National Council of Technical Education to co-ordinate the activities of the different technical training institutions and to regularise standards. These measures are very essential in view of the fact that at present technical courses with widely differing standards are conducted by various institutions under different Ministries.

The other significant issue in the field of education is the need to absorb the annual increase in school going population. The annual increase in school enrolment is about 125,000 at the present rate of population growth. Therefore, each year it is necessary to provide additional accommodation for this increase, so that present levels of enrolment at least could be maintained. An estimated area of 12 square feet per child at Rs. 8·50 per square foot entails an expenditure of Rs. 12,750,000 for this increase in enrolment alone. In addition to this there is the need every year to replace and repair those buildings which are in a state of dilapidation. Moreover, the qualitative improvements effected to make education more meaningful in the context of a developing nation has greatly increased educational costs. In view of all these factors it is necessary to explore ways and means of pruning educational costs to the barest minimum without in any way impairing the quality or curtailing the service. Already a scheme of automatic promotions has been introduced to prevent stagnation and blocking up of class-rooms. A more vital consideration is the more widespread use of double-sessions which would prevent duplication of buildings, furniture, equipment, laboratory facilities, etc. Double sessions and low-cost construction would effect considerable economies in educational investment. In 1964–65 it is proposed to spend Rs. 18·9 million on general education, the major portion of which would be utilised to provide accommodation for the new entrants and for repairing and replacing dilapidated school buildings. This investment would result in the construction of 500 schools with a capacity of 200 each to accommodate a total of 100,000 additional pupils. In addition the school works programme under the Kandyan Peasantry Commission is expected to create additional accommodation for 2,000 pupil units. Enhanced provision is being made for the construction of and equipment of science laboratories in rural areas.

Increasing attention is being paid to the improving of teaching standards in schools. In 1961 nearly 33 per cent of the teachers in service were uncertificated. It has been realized that teachers with a bare S. S. C. qualification impairs the quality of education. In view of this it is essential to expand facilities for the training of teachers. In 1964–65 over Rs. 1 million is estimated to be spent on the construction of and expansion of Training Colleges. It is proposed to start work on two new Training Colleges at Anuradhapura and Bandarawela.

Expansion of higher education is a natural concommitant of increasing school enrolment and economic development. Here too it is satisfying to note the greater emphasis placed on the expansion of scientific and technical studies in recent years. Estimated investment in education services in 1964–65 is indicated in the table below :

Rs. million

	1964–65
General Education	18·9
University Education	3·7
Technical Education	2·9
Other Education	1·1
TOTAL	26·6

Health

The following Table gives an idea of the progress achieved in the sphere of health during the decade 1952–62 :

Year	*Birth rate*	*Death rate*	*Maternal mortality*	*Infant mortality (per 1,000 live births)*
1952	39·4	12·0	6·3	78
1962	35·8	8·0	2·6	52

As facilities for the care of the sick and the disabled have reached a fairly developed stage as indicated by the fall in mortality rates, investment scales are being tipped towards lowering morbidity. It has now been realised that the latter cannot be attempted within the narrow confines of institutional care, but should embrace the wider field of environmental sanitation, education and social and economic advancement as most illnesses are due to ignorance of simple rules of personal health, sanitation, nutrition, etc.

The institutional medical facilities already in existence, with some expansion and a greater degree of reorganisation, is considered adequate to meet the needs of the immediate future taking into account the increasing population. Although the bed strength in relation to population in Government hospitals continued to be static at 3·2 beds per 1,000 persons, during the past few years there has been a noticeable reduction in over-crowding in several medical institutions. This is partly due to the development of specialised services in a wider range of Government hospitals. A certain amount of over-crowding still exists in Government medical institutions though to a lesser degree than in the past. In 1962 the over-crowding index for all Government hospitals was on an average 119 patients to every 100 beds. In provincial hospitals it had dropped from 128 in 1961, to 121 in 1962, while in district hospitals it had declined from 126 in 1961 to 117 in 1962. The number of indoor patients treated in Government hospitals had doubled from 843,000 in 1952 to 1,661,000 in 1962. But as nearly 20 per cent. of these suffer from preventible diseases, the advancement of environmental sanitation would help to ease the pressure on institutional treatment. Improved diagnostic practices, extention of domicilliary medical care and a more realistic distribution of medical personnel would further reduce pressure on the curative health services, without recourse to an extensive expansionist programme.

Further, with a view to restraining the capital programme in this field careful consideration is being given to the question of the extent to which a well organized ambulance service would obviate the necessity for too many peripheral units. It is of far more benefit to have fewer and better equipped hospitals, closely knit by an efficient transport service, than to have a large range of institutions some of which are little more than " through stations ". During 1964–65 it is proposed to spend Rs. 1·9 million for the purchase of equipment and transport for medical institutions and Rs. 7·8 million on the construction of and extensions to hospitals. This investment is expected to yield an addition of 500 beds in Government hospitals and 20 beds in Kandyan Peasantry Commission areas in 1964–65. In addition Rs. 1·5 million is estimated to be spent on the construction of and improvements to water supply and sewerage schemes in hospitals. Proposed capital investment on ayurvedic medical facilities in 1964–65 is Rs. 0·6 million. Work is due to start next year on a new Ayurvedic Hospital at Beliatte.

The performance as regards the capital investment programme in health services has been low as the financial targets proposed for 1961–62 and 1962–63 were to a great extent unrealised.

Rs. '000

	1961–62			1962–63		
	Plan	*Actual*	*Shortfall*	*Plan*	*Actual*	*Shortfall*
Curative health	19,058	8,850	10,208	19,131	7,216	11,915
Preventive health	14,879	10,451	4,428	15,983	7,095	8,887
TOTAL	33,937	19,301	14,636	35,114	14,311	20,802

It is seen from the above Table that the shorfall in investment is considerable, being more marked in 1962–63 than in the previous year. On a percentage basis, in 1961–62, 43 per cent of the estimated investment was underspent, while in 1962–63 the shortfall constituted as much as 59 per cent of the investment target.

With regard to preventive health the performance in the first year of the past programme is satisfactory, 70·2 per cent of the estimated investment being realised. Several large water schemes are in various stages of construction at present. Work on the second stage of the Colombo South Water Supply Scheme is due to be completed by the end of 1965. In 1962, the water supply schemes at Vavuniya, Negombo, Ratnapura and Hambantota were completed, while in 1963, those at Matara, Puttalam, Jaffna, Hatton and Gampola were completed and handed over to the respective local authorities.

With regard to investment in curative health, the performance has been low as only 46·4 per cent and 37·7 per cent of the estimated investment were realised in 1961–62 and 1962–63, respectively. Shortfalls in investment have been a regular feature in this sphere. As regards the achievements, however, work on the new five-storeyed block for the General Hospital, Colombo, and on the New Eye Hospital, Colombo, were brought to a conclusion in 1960–61 and 1961–62. respectively. These have since been occupied and have helped to relieve congestion to a very great extent. At the Eye Hospital the over-crowding index dropped from 208 to 84. Extensions to some of the major provincial hospitals like those at Kandy, Jaffna, Badulla and Batticaloa are nearing completion, while additions and improvements to a large number of base and district hospitals are in progress. Although work on the new Colombo South Hospital is still not over it was brought into partial commission in 1962. Work is also proceeding on 3 new hospitals at Avissawella, Kegalle and Galaha. Where Ayurveda is concerned the new Ayurvedic hospital at Anuradhapura was completed in 1963 and brought into commission in early 1964.

The special campaigns for the control and prevention of communicable diseases like malaria, tuberculosis, leprosy, filariasis, veneral diseases and cancer show satisfactory results. Activity in this field will be intensified in the coming year.

Environmental sanitation has several facets to it such as a clean water supply, sewerage disposal, unpolluted air, adequate housing, a clean and nutritious food supply, etc. The chief among these are adequate supplies of safe drinking water and the disposal of sewerage. As water-borne diseases account for about 30 per cent of all diseases in the Island, the provision of clean water supplies would greatly reduce morbidity. As mentioned earlier this factor is receiving increasing recognition at present and already several major water supply schemes have been completed in urban areas, while a number of other schemes are in various stages of construction. This aspect is receiving priority in the health programme for 1964–65. A capital investment of Rs. 14·050 million is envisaged on water supply schemes and Rs. 0·750 million on sewerage and drainage in 1964–65.

The proposed capital outlays on curative and preventive health in 1964–65 are indicated below :

Rs. million

	1964–65
Curative health	
(1) Construction of and extensions to hospitals and special hospitals	7·8
(2) Equipment and transport for medical institutions	1·9
(3) Water supply and sewerage for medical institutions	1·5
(4) Expansion of Ayurvedic medical facilities	·6
TOTAL	11·8
Preventive health	
(1) Water supply schemes	14·050
(2) Sewerage and drainage schemes	·750
(3) Construction of administrative buildings—Department of Water Supply and Drainage	·262
TOTAL	15·062

Housing

The rapid increase in population and the high rate of migration of rural people into the towns has caused severe hardship and acute congestion in urban areas. Investment in housing has lagged behind needs. The realised investments in 1961–62 and 1962–63 are Rs. 35·385 and 30·613 million respectively. The proposed investment in 1964–65 is Rs. 40·647* million which will yield 7,200 new dwelling. units. In addition, improvements to 4,203 existing houses will also be effected.

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* Of this amount Rs. 5 million is extra budgetary, representing provision made by commercial banks for housing loans.

The housing problem as it exists today, has two distinct aspects. First, houses have to be provided to ease the acute congestion in urban areas. The programme of the National Housing Department is designed to meet this need. Second, housing has to be provided in the rural areas. This aspect of housing is undertaken by several development departments as part and parcel of Colonisation and Village Expansion Schemes.

During 1964–65, the National Housing Department will spend a sum of Rs. 15 million in housing mainly in urban and semi-urban areas. Part of this money will be loaned to individuals, part will be spent on building schemes to be executed by the Department itself and let out to individuals on a rent purchase scheme and part will be invested on departmentally constructed houses and flats for letting out on a monthly rental.

The Department of National Housing has been the chief house builder in recent years in the public sector and has concentrated its energies mainly to ease the housing problem in urban and semi-urban areas. The total expenditure on housing by the Department up to the end of 1963 was Rs. 141·5 million of which (*a*) Rs. 85 million were given out on loans to individuals, (*b*) Rs. 21 million were invested on construction of houses for rent purchase, and (*c*) Rs. 35·5 million were invested on departmentally constructed houses and flats for letting out on a monthly rental.

The main agencies in the public sector providing housing in the rural areas are the Department of Land Development, the Land Commissioner's Department and the Gal Oya Development Board. These housing Schemes are part and parcel of major development projects such as Land Colonisation and Village Expansion Schemes. These departments will spend Rs. 12·881 million in 1964–65. Housing programmes undertaken by other Government departments and agencies are mainly for their respective staff which, under present conditions of limited financial resources, have a low priority. Investment in the latter category in 1964–65 is only Rs. 3·687 million.

Public sector investment on housing during the three years of the first Programme was estimated at Rs. 55·019, Rs. 53·585 and Rs. 59·320 million, respectively. The actual performance has fallen short of these estimates. The actual investment on housing in 1961–62 and 1962–63 was Rs. 35·385 and Rs. 30·613 million, respectively. In the light of past performance it is estimated that Rs. 31·797 million will be invested in 1963–64. It should be noted that the financial provision made available to the Department of National Housing was considerably below the programme requirements. This fact alone accounts for the major portion of the wide gap between the estimated and the actual investments in 1961–62 and 1962–63.

In the two years, 1961–62 and 1962–63, the number of dwelling units constructed in the public sector was 8,759 and 8,445, respectively. In 1963–64 it is estimated that about 8,221 units will be constructed. Thus, during the period of the first Programme, a total of 25,425 dwelling units would have been constructed by the public sector.

The above figures show that 58 per cent of the investment proposed in the past Programme were actually invested during the Programme period. It would also appear that the public sector programme in housing during the first Programme period has fallen short of the targets and that the gap in housing requirements is widening.

Every effort has been made to make a more comprehensive assessment of the future public sector housing programme. It is known that several State Corporations have also planned housing programmes for their staff. Banks, too, have made arrangements for granting housing loans to their clients. These have been taken into account in projecting the housing programme for the next year. Efforts have also been made to assess the extent to which improvements to existing dwelling units will be effected. Although the data gathered so far are inadequate it is evident that a proportion of the housing estimates of several departments will be not for the construction of new dwelling units but the improvement of existing units.

Hitherto, there has been no comprehensive assessment of the self-help component in housing or other public sector development activity. Steps are being taken to attempt an assessment during the second programme. For instance, the housing programme of the Land Commissioner's Department, wherein only a subsidy is provided to allottees, has a self-help component of approximately 50 per cent of the amount of the subsidy. The Land Development Department and the Gal Oya Development Board are also adopting comparable programmes for 1964–65 which will enable more houses to be constructed by them with the available funds.

A change of emphasis is desirable in the programme of the National Housing Department, whereby at least 50 per cent of the proposed investment is made in the form of loans of Rs. 5,000 and under to the lower income groups for new houses while the balance is given on loans up to a maximum of Rs. 15,000 each. This will raise the output of houses by a further 400 units each year. The department has also called for world-wide tenders for the construction of 5,000 flats at the Anderson Golf links, Rajagiriya and Ratmalana. The proposed investment on the above has not been included pending acceptance of the tender.

The present programme is planned for a reasonable expansion in house construction to meet the demands of population growth and the influx of people into the towns.

Pending the establishment of a National Housing Corporation on the lines recommended by the Special Committee on Housing, an Advisory Committee has been appointed by the Minister of Labour and Housing to advise him on all matters relating to housing. Efforts will be directed through this agency to accelerate the pace of house construction both in the urban and rural areas.